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PROBLEMS OF WAR  
AND THE  
TRANSITION TO PEACE

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE SEMI-ANNUAL  
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## PREFACE

**F**OR the first two years after the Japanese attack upon Pearl Harbor, the discussions of the Academy of Political Science were chiefly concerned with the impact of war on American society. It is, therefore, significant that the program of the Semi-Annual Meeting, held at the Hotel Astor in New York City on April 12, 1944, placed the emphasis on the problems which may arise in the transition from war to peace—a peace made possible by the military victory of the United Nations. Every phase of post-war planning becomes increasingly complicated when one turns from general principles to detailed specifications. Yet the papers, presented in this issue of the PROCEEDINGS, with few exceptions, undertake to set forth practical suggestions concerning what may be done even before the armistice comes. At a time when public policy is being formulated, it is helpful to have such explicit recommendations dealing with the termination of war contracts, the problem of controls over hours, wages and prices, the maintenance of full employment, the organization of international exchange and the provisioning of those European nations which have been despoiled by the Nazi invader.

The Academy takes pleasure in recording its appreciation of the contribution made by the speakers and presiding officers at the various conferences. Its thanks go also to the members of the Committee on Program and Arrangements, including: John W. Davis (Chairman), Miss Ethel Warner (Director), Arthur A. Ballantine, B. H. Beckhart, W. Randolph Burgess, Nicholas Murray Butler, Robert D. Calkins, Frederic R. Couderd, Lewis W. Douglas, Leon Fraser, George L. Harrison, Pierre Jay, Thomas W. Lamont, Henry R. Luce, Roswell Magill, Charles Merz, Shepard Morgan, Newbold Morris, Gordon S. Rentschler, George Roberts, George A. Sloan, Bradford B. Smith, Arthur Hays Sulzberger, Myron C. Taylor, H. St. George Tucker, Eliot Wadsworth, Thomas J. Watson.

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## PART I

### INTERNATIONAL PROBLEMS OF TRANSITION

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#### THE FUTURE OF INTERNATIONAL LAW \*

FREDERIC R. COUDERT, *Presiding*

President of the American Society of International Law  
Trustee of Columbia University

**T**HIS is the Semi-Annual Meeting in the sixty-fourth year of the Academy of Political Science—a very respectable age.

We are to discuss this morning "International Problems of Transition". As a sort of introduction, I have been asked to say something about the elements of the coming world order; for, if there is one thing that we all desire, and that we all work for, it is to bring order and law into a distraught world. Out of complete chaos we wish to bring something like normality and regularity. I am glad that our able and highly respected Secretary of State has emphasized that in this troubled world we must finally create some machinery for the preservation of peace. Total war in a global world means ultimately the destruction of that civilization for which men have worked through several thousand years.

It was some seventy or eighty years ago that a great French writer, Taine, pointed out the fact that universal military service, that is, the service of every man, and now it has become every man and woman, in a nation at war, against every other man and woman in another nation, must ultimately mean the destruction of our civilization. Ten years prior to the French Revolution, in which the first instance of mass arming and totalitarian war was found, Edward Gibbon, the historian, thought that war would gradually die out because it was carried on only by a few professionals and did not disturb the mass of the people. Since that time we have seen that totalitarian war

\* Opening remarks at the First Session of the Semi-Annual Meeting.

leads to complete destruction, and the modern engines of that destruction have created a problem greater than the world has ever before faced. It is for that reason that I, among many others, am profoundly interested in the creation of an institution and institutional methods which will substitute law for force.

We have heard much of international law, but back of that law there is not what there is in municipal law, the force necessary to compel obedience. In the municipal communities infraction of law is punishable by the will of the community. Among the nations, with each sovereign nation able to do very much as it likes, naturally there is more or less of a state of anarchy. It is not that the law is lacking; there is plenty of law that the lawyers can always find. For more than 130 years the most serious disputes between Great Britain and the United States have been settled through arbitration—through the crocodile tears of the lawyers rather than the bitter tears of the women and the children. It is that kind of a world that we must establish, one based upon the application of law, backed by the community of nations for the maintenance of peace, as against a world which may at any time become the victim of an aggressor nation that is contemptuous of law and indifferent to peace.

It is sufficiently obvious since the attack upon Pearl Harbor that the United States is defending itself from attack. As to the justice of this there can of course be no debate. It is possible, however, to go one step further and to say, I think with entire accuracy, that the United States was attacked because its policy for years has been to defend international law and the sanctity of treaties.

Since the first World War our position has consistently rested upon international law and the settlement of disputes by diplomacy or arbitration. This attitude was emphatically adopted when Japanese aggression became open and flagrant in Manchukuo. The policy then resolutely asserted by the Department of State has been consistently reiterated and insisted upon. We can thus surely state that the primary aim of the United States is to bring about and maintain the supremacy of international law with its concomitants of judicial settlement, treaty observance, and conciliation through diplomacy.

The main post-war problem will thus be the establishment of a world situation calculated to effect this purpose; in other words, the creation of a sanction for international law. We have cherished the view, perhaps I might say, the "illusion", that this sanction might consist solely of a world opinion, a public opinion which might operate upon the nations so directly as to preclude recourse to war. This view was rather widely held before 1914. It was thought that some sort of outlawry might be created against a nation running counter to this public opinion, and that the cohesiveness of the Family of Nations would soon bring the recalcitrant member back to order. We now know that such was a vain hope. This can be done only by insistence that might must be placed behind right and that a breaker of treaties and a transgressor of international law must be suppressed by the preponderant might of a civilization founded upon justice through law.

There can be no law, national or international, without some political organization or relationship from which it emanates. It is as impossible to have international law completely detached from politics, in the broad sense of governmental activity, as it is to have municipal law without any political organization of the state behind it. International law, such as it is, has existed for 300 years because foreign states, through emissaries or ambassadors, had some relationship and intercourse on matters of common interest with each other. Even in earlier and more primitive societies the immunity of ambassadors and the sacredness of their person were recognized.

Modern international law originated in a community of Christian nations having a common consciousness of right and wrong. Through the generations that community grew until it embraced nations that did not have the common religious background and had not been part of the Roman Empire.

The apostasy of Germany, Italy and Japan from the fundamental principles upon which international law had been founded, and which the League of Nations and the Permanent Court of International Justice had attempted to maintain, disrupted the whole structure. Doctrines such as racialism and the negation of the rights of weak nations destroyed those very bases upon which international law had grown slowly and painfully through the years.

The equality of states before the law was fundamental; its denial was a reversion to the older and more primitive system of force or imperialism by which the weak had ever been the slave of the strong. Thus, to restore international law to the position it occupied, it becomes necessary again to organize more firmly and completely the Community of Nations and safeguard it from apostasy and aggression.

This can be done only by creating a strong organization or agency, representative of the Community of Nations, capable of preventing aggression. The task is one of utmost difficulty, but it must be accomplished if our Western civilization is not to be destroyed and if the body of international law, which has grown up through the generations, is not to be relegated to the limbo of oblivion.

In trying to reach a solution of this cardinal problem we must strive for clarity of thought, and we must avoid the misleading effects of mistaking words for things and slogans for real relationships. Few subjects have suffered more from catchwords and vague phrases than international law. John Chapman Gray once wrote, "On no subject of human interest, except theology, has there been so much loose writing and nebulous speculation as on international law", and one may now add international relations generally.

I am conscious of the power of phrases and slogans; I realize their danger, and their often misleading nature. I fear the "absolutists" in international politics almost as much as I fear the fanatical devotees of force and militarism. Some of the words or phrases which have been glibly used for so long seem to me to be fraught with dangerous fallacies. Analyze such a word as "self-determination". That among civilized people the desire of historic or ethnic groups for self-government is a natural and an excellent thing cannot be denied. As a working rule for statesmen it is useful. To suppress sentiments of nationality is ever fraught with a degree of danger; war may and often has resulted by reason of undue repression. On the other hand, to inject such a general working rule into an absolute principle of international conduct, everywhere and always applicable, is dangerous. We speak of it in absolute terms, but the United States, in 1860, had the majority of its people acquiesced in self-determination as a God-given absolute prin-



ciple, would have been completely disrupted. That principle today applied generally and universally would break into fragments great areas where the rule of law has long prevailed.

The application of self-determination at the present time, or after the victory of the United Nations, must be as a working rule dependent upon circumstances and conditions and not as an absolute postulate everywhere and at all times applicable. As Secretary Hull says in his admirable address (and I am so glad he said it) on the foreign policy of the United States, speaking of the Atlantic Charter: "It is not a code of law from which detailed answers to every question can be distilled by painstaking analysis of its words and phrases. It points the direction in which solutions are to be sought; it does not give solutions." (Radio address, April 9, 1944.)

This, I am sure, is a dictate of common sense and of reasonable prudence. Many ardent and enthusiastic reformers will refuse to admit this limitation and will indulge in acrid and unreasonable criticism of those who do admit it. But, if we are to reach a happy result at the termination of the war, it will be through the use of that common sense and discrimination which realizes the necessity of applying the results of historic experience and of reasoned and calm analysis to any international settlement which may have any chance of success.

We hear much of "sovereignty" as inherent in national unity and as a bar to world coöperation. This again is a vague term used without reasoned analysis. Sovereignty within a nation certainly means the power which ultimately compels general obedience to the laws within that jurisdiction. Sovereignty external to that nation may be a very different thing. No nation, even the greatest, can be sovereign against the combined power of the Community of Nations, provided that power is at all organized and direct. It is only when that community is unorganized and divided that any nation may be said to be externally sovereign. Even in that event, its external sovereignty is subject to limitation by other more powerful nations or combination of nations.

International law within its sphere of international relationships must be sovereign if it is to be law at all. This sovereignty can be exercised only through the organization of the community of states. As the late Mr. Justice Holmes stated on

various occasions, "Apart from theory sovereignty was a question of strength and might vary in degree."

Every limitation which a nation by treaty or acquiescence imposes upon itself is *pro tanto* a limitation of sovereignty. True, it may be a self-limitation, but the violation of that self-limitation may well invite the use of force from other nations. Sovereignty varies in degree and power; even in the United States itself it is not always possible, as we discovered a few years ago, for the nation to enforce its own laws. In the creation of machinery for the sanction of international law there must be a recognition that sovereignty is a mere word for preponderant power. Like jurisdiction, it simply comports that back of the rule of law there is a power capable on the whole of enforcing that rule.

Another slogan much misunderstood, constantly used in the newspapers and elsewhere much to the confusion of thought, is the phrase "balance of power". It originated, I presume, in the policy of the people of the British Isles to protect themselves against dominance by any nation of continental Europe by playing off one great Power against another so that they might live in peace and develop their own institutions in their own Isles. It was the natural dictate of the national will for independence and security. In itself, it did not necessarily possess those evil connotations so often applied to it by journalists and others who sometimes think very superficially.

A nation frequently does and must seek its own security from foreign aggression and dominance through availing itself of this so-called balance of power, or perhaps more correctly the balancing of power. The problem is to transfer the preponderance of power to the nations intent upon maintaining peace and the reign of law. Power politics, so called, is an inevitable concomitant of international relationships. Power must be used for national security, and often has been employed for national aggrandizement and profit. The problem is to organize that power so that the nations who will use it justly may sanction international law and bring about the rule of law through arbitration, conciliation and diplomacy rather than the rule of brutal, militaristic force.

I believe in the equality of nations, but there is no such thing as the equality of power. A few great nations will



wield the power of the world. If they are divided among themselves as to the policies to be pursued on certain matters of fundamental concern to the security of other nations, it is difficult to hope for any real peace. If the nations now constituting the United Nations, and especially the great Powers among them who wield, under modern conditions, preponderant and overwhelming power, can maintain a policy founded on the establishment of the reign of law, that reign of law can be realized.

I am not given to black pessimism, and I do believe that those great nations now find it to their interest, as well as for other reasons, to unite for the purpose of creating an organization which may at least bring about a lasting peace. When I say a lasting peace, I mean one that will last thirty, or forty or fifty years. During that time, since institutions are of slow growth, power of opinion in the great nations may be such that it will bring about the strengthening and the utilization of these new institutions to a point where they may serve to bring about that long-desired, permanent peace under the rule of law.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: "The food supply and the relief of Europe"—after all, if man lives not by bread alone, he does not live much without it; and we know that unless Europe can be saved from those destructive elements of famine and disease, the prospect for world peace and the reign of law is indeed a distant one. We also know that even if Germany is completely defeated, as she must be in the end, she may be able, through what I believe to be a calculated policy, to weaken the present subjugated nations, morally and physically, so that she will remain the strongest nation in Europe. If Germany manifests the same spirit that has activated her for years and maintains the same militaristic ambitions she will still be able to dominate and to begin again, in the not far future, the struggle for the subjugation of all Europe.

Therefore, there is nothing more important to the people of the United States, to all lovers of peace and decency throughout the world, than that the subjugated nations and the free nations should not succumb to starvation, disease and destruction. It is a great pleasure for me to introduce to you a master of this great subject, Dr. John D. Black, Professor of Economics at Harvard University.

## THE FOOD SUPPLY AND THE RELIEF OF EUROPE

JOHN D. BLACK

Professor of Economics, Harvard University

THE subject as stated suggests treatment under two heads, the needs of Europe for food, and the food supply situation in the United States and other countries that must furnish these foods. I propose to deal with these topics not in generalities, but rather in terms of the actual facts and circumstances that confront those who have the job of getting the food produced and delivered where it is needed.

Almost any sober-minded American will subscribe to the proposition that the civil populations of the reoccupied and also the conquered countries of Europe must be supplied with food until they can provide it for themselves. Unless this food is provided, not only must a large force be stationed behind the fighting lines to maintain order, but much of Europe will need to be garrisoned for several years after the surrender. There is room for much difference of attitude, however, as to the level of needs that should be met, and as to how much food will be required to support a given level. This will be evident when I tell you that the different estimates of European food needs, in the first year after the surrender, show a range from food enough to feed a full diet to twenty millions of persons, to enough for six times this number.

In the lesser of these estimates, and probably in a good deal of the actual planning by those now making preparations for this period, a level of 2,000 calories a day is assumed. This is probably 400 to 500 calories lower than the actual requirements of the average population person, man, woman and child, at peacetime levels of activity. But the 2,000 calories are supposed to cover only the ration allowances plus market supplies of potatoes, vegetables and other unrationed foods. Many city families even are able to pick up a few hundred calories from gardens and other miscellaneous sources. Also when energy foods are low in the diet, many women, children and old men

cut down their activity. An adult sleeping uses only 65 calories per hour; sitting at rest, 110 calories; sawing wood, 480; and climbing a hill, 1,500 calories.

Finally, the plans based on the 2,000-calorie level are supposed to apply only to the first few months of occupation while the assembly and movement of domestic supplies are interrupted. For the rest of the period of occupation, local foods are expected to be as nearly adequate as before the fighting reached that particular section. To be sure, the enemy will have consumed, carried away or destroyed considerable food, but the bulk of it, it is being assumed, will still be available as soon as markets and warehouses are restored.

Needless to state, some of the planners consider the 2,000-calorie level too low. A few would go so far as to set up pre-war consumption as a proper level right from the start. However, the usual conception is that several years will be required to get diets fully back to their pre-war levels and also to their pre-war composition. To be specific, not until the herds of livestock are fully restored can animal products make up 22 per cent of the foodstuffs of continental Europe, as before the war. The comparable figure for 1943 was around 15 per cent, and two more years of war might bring it down to 12 per cent. Conceivably enough animal products could be imported to make up the 22 per cent in the first year after the war, but this would not be the best use of the limited buying power of these countries nor of the limited budget of UNRRA. Consequently, the supplements to local diets provided at first should consist of staple foods furnishing calories and needed vitamins and minerals in cheap form—mainly of such foods as flour and cereals, vegetable oils, and beans and peas—with restricted amounts of lard and milk and egg powders in countries accustomed to using animal products. The more realistic of the estimates therefore run in terms of less than 2,400-2,500 calories even if they do not go down to the level of 2,000.

#### *How Much Food?*

Given these calorie levels, the next question is, How much food will be needed to supply the needed food supplements? The range of answers to this question is wide not only because of differences in the calorie levels, but because of differences in

the number of persons it is assumed will need to be fed. The 20-million estimate was derived as follows. There are 175 million people in cities of 20,000 and over in the British Isles and Europe. About 75 millions of these, plus all those living on farms and in villages and smaller cities, will be able to provide their own food. The remaining 100 millions will need an average of 400 calories a day to bring their diets up to a 2,000-calorie level. This is an average for the first twelve months, consisting of almost a full diet the first few weeks, this tapering off to a few hundred calories at the end.

This estimate, and the others to be cited, are for all of Europe, both the continent and the British Isles. They thus cover much more than relief food. They include what would be normal imports if Europe were at peace, plus the additional needs for food resulting from the war.

The next larger estimate is that published in the National Planning Association's pamphlet, *Food for Europe after Victory*. This calls for food enough for 50 million persons for a year. The level assumed was also 2,000 calories, but more than 100 million people were expected to need food. The group that prepared this estimate was also not expecting markets and normal food movements to be established so readily. The experience in north Africa and Sicily was freshly in mind. Perhaps the same group would raise its estimates now that southern Italy has been provisioned for a while.

It needs also to be explained that the National Planning Association group was not thinking merely of the quantity of food that it would be good for the people of Europe to have. It took account also of the difficulties of providing this food. It weighed against the advantages to the receivers the difficulties encountered in the producing and shipping countries. It had in mind, for example, the reaction of the people of this country toward rationing of meat, butter and sugar, toward price control and subsidies, and toward stockpiling of rationed foods.

Two other estimates are that of Dr. John Richter of the Office of Foreign Agricultural Relations, that food for 80 millions will be needed to raise Greater Europe's food consumption to its pre-war level, if food production in Europe declines no further by the end of the war; and that of Dr. M. K.

Bennett of the Food Research Institute, which, translated into the same terms as the others, probably means food for 100 millions of persons. Dr. Richter's estimate runs somewhat higher than the NPA estimate. Dr. Bennett's is still higher. He has probably made more allowance than the others for waste and destruction of food, for hoarding on farms, and for non-rational elements in the food-management programs of the nations involved.

The estimate of 105 millions for continental Europe (probably 125 millions if the British Isles are included on the same basis), made by Professors F. F. Hill and F. A. Harper of Cornell University in a recent Public Affairs pamphlet, was obtained apparently by the simple procedure of assuming that the food production of continental Europe is likely, by the end of the war, to be off 10 per cent from that before the war, thus making it necessary for Europe to import 20 per cent of its food supply in place of 10 per cent before the war.

Your speaker's judgment is that Dr. Bennett's estimates represent the amounts of food that it would be excellent for the United States and the other food-exporting nations to furnish Greater Europe in the first year after the surrender, if the United States and these other nations were in a proper state of mind to do it. They would not by so doing depress their own diets very close to the diets that the people of Europe will experience in that year. As to the amounts which actually will be supplied Europe in that year, the NPA estimate of food for 50 millions probably comes closest. A practical working goal would be food for somewhere between 50 and 75 millions.

It is pertinent in this connection that this amount of food is just about the amount which Mr. Hoover states that his organization distributed in Europe after the last war. It is not proposed that the United States furnish all of this food this time—not even half of it; nor that most of it be furnished gratis—in fact, only a small fraction of it. Food for the 50 to 75 millions includes the imports into the British Isles, whatever food Russia will take, and the large purchases on a cash and credit basis by the countries that intend to pay fully for all the food they get, or may be required to do so, as may be the case with the enemy countries.



*Supply Factors*

How does it happen that the food planners of this country are thinking in more restricted terms this time than last? Is not this war much bigger than the last one, and will not the aftermath be worse? Most of the answers to these questions come from the side of food supply rather than food needs. At the outset of the last war, the Allied Nations were greatly frightened about food, but the war ended surprisingly soon, and production by that time had expanded to the point where presently the United States was considering plans for "surplus disposal". This time the developments have been in reverse order—demands for food have expanded faster than supply. Rationing and price control, moreover, have made our people very food conscious. Furnishing food to Europe last time did not threaten to deprive anyone of food. This time, it appears to do so. Or at least it has been discussed in the press and from the rostrum so as to make it thus appear. It is entirely possible that the concern that internationally-minded persons have expressed over our having enough food for European relief has contributed to the prevailing thought that if we do feed the Europeans we will be seriously impairing our own diets.

Yet there is little present basis for such fears. Our diets have improved more in the war thus far than ever before in so short a period. Civilian consumption per capita of all foods except sugar, butter, and fresh fruits other than citrus was higher in 1943 than before the war. The prospects for 1944 are for as much meat and eggs per capita as in 1943, and for more fruits and vegetables. Dairy products and fats and oils promise to be in smaller civilian supply, but only by five per cent or less.

Looking ahead to 1945 and 1946 gives more concern only because the only safe course in wartime is to plan for possible adverse developments. The war *may* last longer than now expected. Crops could be poor in this country this year or next, and also in some of the other allied countries. These eventualities would not in themselves cause anybody in this country to go hungry; but they would call for shifts to more cereals in our diets and less meat and eggs. The shifts would not be large—something like 10 to 20 per cent at the most. No food

or rationing authority of course wants to have to face the task of bringing about such shifts, but there is no cause for any alarm on anybody's part. Simply it would be wise to take actions now that will be much easier than those that will be forced later, if fortune turns against us. Fortune has been in our favor thus far, with large stocks on hand when the war began, our land in good condition after six years of conservation measures, and favorable weather. Crop yields have averaged 12 per cent higher in 1941-43 than in 1935-39. What reason is there for believing that a visitation of droughts such as in the years 1933-36 is not in the offing? The 1934 crop yields were a fifth below average.

Another eventuality is of course that crops will become poorer in Europe itself, making imports of food for more than 50-75 million people highly necessary. The 1943 crop was very good, except of potatoes in central Europe. The odds are that output will decline as fertilizer becomes still scarcer and labor still more pressed into war production.

#### *Stockpiling Needs*

The action that is called for is simple enough to define, namely, transfer to reserves out of the supplies still being produced, out of old carry-overs, and out of 1942-43's bountiful crops, enough food to take care of the relief needs that may develop beginning this summer and fall if the invasion proceeds as hoped, and also of domestic needs in the event of short crops. Once these stockpiles have been accumulated, they can be kept at the desired level by drawing from them the older stocks as fast as they are replaced by new. In this way, extremely little spoilage need occur.

Most important to stockpile now are fats and oils. Recently fifty million pounds of lard were diverted to soap-making. Supplies of vegetable oil in the East will not be available until after Japan is driven back home.

Next comes wheat. Our own supplies and Canada's have already been reduced to a minimum level of safety. In spite of a large increase in acreage planted or to be planted, the 1944 crop of the United States is estimated at little larger than that of 1943. Until we can see what the new crop is going to be like in the northern hemisphere, and how the invasion is going to

progress, scarcely any wheat should be diverted to feed uses or to alcohol. Molasses and sugar should replace wheat in alcohol plants. Corn should replace wheat in dairy rations.

The time to stockpile dairy products is this spring and summer while production is at high seasonal levels. Especially important is it that adequate reserves of skim milk powder be established.

Sizable reserves are also needed of beans and peas (pulses, in the English nomenclature), dried and salt fish, and some dried fruits.

Although this action is simple to describe, it is not so easy to execute. Most of our people have not been educated to understand and accept a stockpiling program. The press makes a great stir whenever it discovers that stocks of any product are a bit larger than pre-war stocks. One of this morning's Boston papers contained an editorial demand that more wheat be devoted to alcohol so that sugar rationing can be discontinued. If such stockpiling is going to be done in the present state of the public mind, it almost looks as if the War Department would have to do it.

Another difficulty arises from the livestock-feed situation. At the outset of the war, it was good war economy to convert existing stocks of feed to meat and lard. But this movement was carried too far and continued too long. There were a fifth more grain-consuming animal units last January than in January 1942. There will be 11 per cent less grain per head of livestock next year than a year ago. During all this time, prices of livestock and livestock products have been more favorable than those of grain, and the Director of Economic Stabilization has permitted no correction of this unbalance because of fear of effects on the demands of labor for higher wages.

Such a stockpiling program, it is obvious, is not an undertaking for the United States alone. In the aggregate the United States is likely to supply less than half the food needed to relieve Europe. The largest single contribution to it is likely to be Canada's wheat. The task of fitting together the food reserve programs of the different countries is assigned to the Combined Foods Board sitting in Washington. The difficulties in carrying out such a program will differ greatly by countries. The table following shows the relative expansion



of production, crops and livestock separately, for a list of countries:

CROP AND LIVESTOCK PRODUCTION IN SELECTED COUNTRIES  
IN 1943 AS A PERCENTAGE OF PRE-WAR PRODUCTION

(Production Measured in Calories for Consumption)

Country	Pre-war base period	Production in calories as per cent of pre-war period	
		Crops Per cent	Livestock Per cent
Canada .....	1935-39	80	144
United States .....	1935-39	113 <sup>1</sup>	138 <sup>1</sup>
Mexico .....	1935-39	137	106
Argentina .....	1935-39	97	122
Brazil .....	1935-39	130	91
Chile .....	1935-39	107	126
Australia .....	1935-39	99	107
New Zealand .....	1935-39	145	103
United Kingdom .....	1934-38	210	78
France .....	1933-37	78 <sup>2</sup>	64 <sup>2</sup>
Germany .....	1933-37	113 <sup>2</sup>	80 <sup>2</sup>

<sup>1</sup> Tentative, weighted by values at pre-war prices rather than calories.

<sup>2</sup> An average of 1942 and 1943.

Office of Foreign Agricultural Relations.

*Later Years*

Thus far the discussion has been mostly in terms of the first year after surrender in Europe. There will be relief needs for food after that—in the second year, probably at least at half the rate of the first year. These needs will, however, after the second year fall into the general pattern of food importing of food deficit nations, and the only concern they will cause is that they will not be large enough to absorb the “surplus” food production of this and several other countries. Even assuming “full employment” in this country in 1948-50, our farms will produce more food than domestic consumption plus pre-war levels of exports will absorb.

These surpluses can of course be absorbed in part at home by improving the diets of our malnourished groups, and in part by parallel efforts in other countries, assisted, let us hope, by carefully designed plans developed by a strong international food organization. Though diets supplemented up to a level of 2,200-2,300 calories by means of these cheap staple foods be accepted as the goal for the initial year or two following the war, the exponents of better nutrition who had their say at Hot

Springs in May 1943 will not be satisfied with them very long. They point out that at least a third of the people of Europe were clearly malnourished before the war, and ask that measures be set in motion that will begin to correct these conditions as soon as the proposed international food organization gets under way. A really vigorous international agency could make large headway in this direction in ten years provided the orderly processes of government can be restored in about all the countries, and provided agricultural depression, such as that in the 1920's and 1930's, can be prevented.

Moreover, the point is now strongly urged that unless this malnutrition is remedied, orderly government is difficult in the long run. The current hypothesis on this subject runs about as follows: to be sure, back in the Middle Ages and beyond, a majority of the people of most countries were starving or on the verge of it much of the time. But still they did not often rebel. The reasons for this were one or all of the three following: (1) too weak to do so, (2) too busy growing food, (3) too scared at not having enough to eat to risk any insubordination. Nowadays, however, enough families are, on the one hand, safely over the edge from actual starvation and, on the other, miserable enough because of malnourishment, to furnish support for any kind of a movement that promises to better their conditions. We may not be ready to accept this doctrine in full, but must admit its plausibility.

### *Outlook*

In summary, it can be said that the feeding of Europe after victory is an assignment entirely within the reasonable capacities of this and the other countries principally involved. The requirements are not at all impossible to meet, and the burdens on current production and consumption moderate indeed.

And yet we cannot be at all certain that the job will be well done. The most serious obstacle, so far as this country's part in it is concerned, arises from the timing of events. The months when the stockpiling is most needed are months immediately ahead. But these are the very months when the major concerns of many war food administrators is not to rock the political boat.

## REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: We thank you, Professor Black, for a most enlightening and interesting exposition of the vital food question which affects all of us as individuals.

I think many of us live in a more or less dual capacity. For instance, on ordinary days I practice law; week-ends and holidays I practice farming, and I find that when I am a farmer I can eat twice as much as when I am a lawyer. Whether that indicates that the farmer is superior to the lawyer, or that the lawyer is superior in endurance to the farmer, is one of those moot questions which I shall leave to the more academic gentlemen here present.

Now, we come to a question not only of vital importance to the United States, but of passionate, sentimental and tragic interest, and that is the future rôle of France. We know the rôle France has played throughout the ages. We know how necessary she must be in the future in holding power with other civilized nations of the world against that aggression from over the Rhine that has threatened to break up our civilization for so many years past. Few, if any, could speak more convincingly on this subject than the next speaker. Probably all of you have read many of the recent war books. Most of them are lifelike accounts of things that are happening, but I am frank to say that none held me quite so strongly as *Men in Motion*, written by our next speaker, a very experienced traveler, journalist and philosopher, Mr. Henry J. Taylor, whom I welcome.

## THE FUTURE OF FRANCE

HENRY J. TAYLOR

Scripps-Howard Foreign Correspondent

Author of *Men in Motion*

**I** BELIEVE that any American who travels abroad and comes home has a special duty today to speak of France.

The one and only hope for western Europe is the revival of a strong France. I felt this most earnestly when I wrote *Men in Motion* and, with your permission, I would like to repeat it to the Academy this morning.

The revival of a strong France is the main obstacle Germans see standing between themselves and expansion, just as they have always seen France as their obstacle in the West and Russia in the East. Whatever European system may be devised after the war, Germans the world over, home Germans and refugees alike, do not argue for a strong France. If you do not believe this, ask them. If they hem and haw about it, be on your guard. I am afraid that if you remind them that France was the first large democracy and that France was the only important democracy on the entire continent of Europe, you will find that they do not display much interest in the democratic principle.

The intention in the German-speaking community, inside Europe and outside, is that the personal relationships between England and Russia will not prevail after the war, and that America will be distant. Accordingly, if England and France are deeply separated the absolutely certain division in Europe would be favorable to the resumption of German supremacy on the continent. In this way Germany would finally emerge as top dog in Europe, come what may.

"France is finished." "What could you expect of people who rule themselves as the French did?" "France is living in her past glories." These are dangerous and diabolic words. They are water on the German wheel.

France is a freedom-loving country. American and British relations with France are basic for world peace. There is no better protection against a long-range German political scheme.

This is one of the chief reasons why Germany did not occupy all of France in the beginning. The Germans knew and hoped that by occupying half of France the French people would fight among themselves. This had two purposes. First, it would remove the threat of a French minority boiling as a unit under the Nazi yoke and threatening to erupt, to Germany's military disadvantage. Secondly, French quarrels would discourage Frenchmen, and the world, regarding any real future for France as a nation.

Yet to lose sight of the position of France in the long-range political outlook is to let down our guard on the future peace of the world.

France must have the honest patience, the constant hand of aid, the vigorous and tolerant support of all free men. By driving a wedge between England and France, the United States and France, free men and France, Germans make their most important contribution to the preservation of German power and the continuity of a Pan-Germanic purpose.

France and England have not been, are not now, firm friends. This cleavage between the two great democracies of Europe is a calamity for Europe and the world. But it is not as bad as it appears to be, and the first step toward peace and safety in Europe depends on the establishment of British-French unity. For England is France's only possible supporter in Europe, and France is England's only possible bulwark on the continent.

The solidarity of France and England should not be regarded as impossible. The world has too much at stake. Not only is it the *sine qua non* of any protection against Pan-Germanism but it is the only really workable program in Europe. Inflate it into a community of all nations in Europe, and it fails. Make it compact and strong, and it can succeed. This is fundamentally a problem which the French must solve through the joint support of England and the United States. Basically, France must see her future with England and America together, not just England or America, or she has no future at all. Nor have any other free people in Europe a future unless this attitude on the part of France grows and flourishes.

If Great Britain in the past had pursued a courageous policy and had been militarily strong instead of pitifully weak, the influence and policy of France and the Slav states in the East



would have been totally different from what it was in the last ten years, and there would be no war in Europe today. However, there is a new factor now which is immensely encouraging and justifies a view that the combination which once failed will not fail again. This factor is the terrible experience to which our British friends have been put. We do not have to believe that England will revert to the vest-pocket army and air force ideas of the nineteen-twenties and thirties.

As for the place of the United States in this, our devious plans for a better world order—whatever that may mean besides the impoverishment of the United States itself—our dull and fatuous assumption that we can set all well with words and dollars and a “police force”, are as meaningless and misleading as Chamberlain’s Munich statement of “peace in our time” and work directly against this prime Anglo-French objective. For in our attempt to be everything to Europe and the world we would fail to be everything in western Europe to England and France. Americans must assume that the solution of only this first problem will require masterful handling, concentrated and unencumbered. It can be done, but it can be done only as *the* program, not as one ring in a thirty-ring circus.

Wise men favor workable plans, always and in anything. Plans are not less lofty simply because they are limited. In fact, the simple label of “lofty” is small compensation for the failure of vast schemes that collapse of their own weight and die in a spasm of confusion and despair. Like Ataturk’s plan for Turkey, in contrast to the old Ottoman Empire, there are many advantages in the compact versus the sprawling.

Wise men know that Europeans cannot stand shoulder to shoulder with everybody. Those who should be friends may stand together. They need not make enemies of the others, but they cannot make friends of the others simply by calling them friends. The test of statesmanship is to choose your allies wisely and well, and then stick to them. This is hard enough, but it holds the prospect of success. And surely, if the roots of the Anglo-French tree remain too weak to support that trunk they cannot support branches and leaves, birdhouses and watch-towers, candles and ornaments in the lightning, the rain and the hail.

The British Commonwealth is both our physical and metaphysical bridge to the world. The French nation is the trunk of democracy in Europe. France is the continental counterpart of the American Republic, and this nation has no older ties than it has with France. If these ties are too frail for unity of purpose, what ties elsewhere are stronger?

As for France's ability to survive on the continent, the fundamental economic problems of the peninsula are not there. It surprises many to realize that France has the best-balanced economy in Europe. Her agricultural areas balance her industrial production, she grows her own food for her population and imports practically nothing. Her exports go to the world markets. England is her best customer, and 20 per cent of her exports go there. England is also her principal supplier.

France has space. Only as many people live in France as in Italy—forty-two million in each country. France is not crowded and pushed. France is no more densely populated than the state of Ohio.

France has raw materials. She possesses great natural resources in her soil, subsoil, climate, watercourses and maritime location. She has timber and iron ore, bauxite, potash, salt, pyrites, antimony, and coal in full abundance. She mines certain quantities of zinc, lead, manganese and gold. Her watercourses give her a canal network which affords cheap transportation and good irrigation, and water power for the hydroelectric energy of our new day. France is basically self-sustaining.

She could be largely rehabilitated by the repatriation of her own gold, for France has a gold reserve second only to the United States, and it is safely guarded in the western hemisphere. The rehabilitation of France would be no drain on anyone.

Anglo-American conquests of Italian colonies in north Africa resulting in their delivery to France could do much to lay the groundwork for the unity of the three great democracies. The joint declaration to the French people that this is the purpose of our fight in the central Mediterranean would point to the fundamentals of our joint attitude toward France, and in such an atmosphere as that France could and would do more for

herself, within herself, than seems possible today. For the defeat of Italy, in *behalf* of France, is the first way to establish the integrity and value of Anglo-American encouragements to the French.

That their ancient enemies, the Italians, bellowed their way into World War II under Mussolini or anybody else and took a bumptious hop-skip-and-jump against France at what they concluded was the painless last moment, beat their chests, and turned loose their phony legions when France was prostrate is something no Frenchman can even speak about. He just explodes. Whatever nations deliver Italian north African colonies to France, in retribution for Italy's attack, will endear themselves to every Frenchman and every Frenchwoman.

As for these Frenchmen and Frenchwomen themselves, the defects in the people of France, the things which some at a great distance call weaknesses of character, and the shades of temperament that contribute to the problem of France today, are not peculiar to the French; they are human and will occur in any alliance, and all of us in our different ways are liable to them.

Yes, France is bitterly angry within herself, more divided than at any time in all French history. In this both England and America must show great patience, but the aim is worth the patience and represents a worthy test of England's and America's statesmanship. Those who love France and wish for peace someday in Europe must reach out and embrace, cling to and hold, work for and cherish above all else a will and prayer: the will and prayer for the unity of Frenchmen, a strong and vital France, and, with this, the return of close and indivisible relations with England. I believe that in due time the French can and will do it. The French are a proud, brave people, God-fearing and true. There are men and women in France and outside France who have integrity, patriotism and unflinching courage, thousands upon thousands of them. There are men and women in France and outside France who have wisdom, talent, and the deepest love for freedom and justice, thousands upon thousands of them. I cannot but believe that as time and events run their terrible course leaders will arise and determined Frenchmen and Frenchwomen will be found to follow them to the honor and glory of a new France and a better world.



## REMARKS

CHAIRMAN COUDERT: I think that the applause of this intelligent audience can express, better than I, our appreciation of your most eloquent and truthful exposition of the position of France today and the great rôle that she is to play. Those of us who have been interested in European affairs through the past years realize how unfortunate it was that so much opinion in this country, and in England, since 1918, did not realize the truth of the French apprehension of the dangers that lay over the Rhine. If we had understood that, if we had sympathized with French needs, and if we had appreciated French understanding of the situation, we might have been in a far different position today than what we are now.

In addition to this very interesting exposition of the situation in France, we are now to have a discussion of the question of Russia and of our relations with that enormously powerful Slavic nation, which has developed military might such as, perhaps, has not been seen throughout the ages, which has stemmed the German invasion, and thrown back the invader and is now pushing forward on the road to Berlin.

Nothing can be more important than the relations between the United States, Russia and Great Britain. If those three nations, as our Secretary of State so cogently pointed out, can find some common basis in their desire for law and order, then the peace of the world is assured. If those relations be fraught with misunderstanding and conflict, the outlook for the world in general will be sad.

We all know of the Institute of Pacific Relations. We know that it is a group of wise and intelligent persons who are studying that whole situation; and we are very fortunate in having here today Mr. Edward C. Carter, the Secretary-General, who will speak to us on "Russia's Future Rôle". I might add that Russia to most of us is the great enigma. Mr. Carter!

MR EDWARD C. CARTER: Mr. Coudert, Ladies and Gentlemen: It is a delight to follow Mr. Taylor and to precede Major Eliot.

I am glad that the Chairman has referred to Russia as the great enigma, for so much of the world has used that phrase. I have had the privilege of visiting the Soviet Union eight times in the last fifteen years and, when I came away from a very extensive trip in the Soviet Union last October, in the midst of this gigantic war, I was inclined to recommend to my friends that we substitute for the word the Russian "enigma", the Russian "miracle", because miracle, indeed, it is.

## RUSSIA'S FUTURE RÔLE

EDWARD C. CARTER

Secretary-General of the Institute of Pacific Relations

**T**HE Russians, the British, the Chinese, and indeed many Americans are still guessing as to the future international rôle of the United States. Under these circumstances it is inevitable that people in the other countries should be guessing about Russia's future rôle. This results in part from a generation of mingled suspicion and ignorance which has blinded many of us to the fact that through the years Russia has had a rather exceptionally consistent foreign policy.

As might be expected, the Bolsheviki with their growing appreciation of the continuity of Russian history have long assumed that the recovery of Russia's lost territories was a legitimate aim.

The Soviets clearly wish to look forward to a hundred years of peace. I venture to guess that they would prefer to see western Europe emerge from the war quickly into a long era of peace and progress under liberal, democratic capitalistic and friendly governments than to be torn in twain by long drawn out chaos resulting from inconclusive communist revolutions.

The Soviet authorities have declared that they do not intend to annex Rumanian territory, or to alter the Rumanian social structure. The Russians, in common with the leaders in Washington and London, have notified the Austrians that their goal is that Austria become independent and free. The Austrians are assured of support in their efforts to find economic and political advantage through understandings with "those neighboring states which will be faced with similar problems." In other words, the world organization will not in theory stand in the way of regional arrangements in the Danube Valley.

A measure of regionalism was foreshadowed by the creation at Moscow of the Advisory Council for Italy and the European Advisory Commission.

The Russians have made it abundantly evident that they regard the re-acquisition of the Baltic States, Bessarabia, and

parts of Karelia as desirable and historically defensible. They have announced that at the right time they are prepared to negotiate with a responsible and representative government of Poland on the general basis of the Curzon Line. They have not dogmatically insisted on the Curzon Line as unalterable, but they have stated frankly that it should form the basis for negotiation.

The Russians have affirmed their wholly friendly and cordial interest in the reestablishment of the Czechoslovak state. They have entered into a strong and binding twenty-year agreement with Great Britain. They have made clear their attitude to the French National Committee of Liberation. They have stated their attitude to the Badoglio government. They have participated in the work of the international food organization, the UNRRA, are participating at the moment in monetary and currency discussions, and it is hinted that Beaverbrook and Berle will inform the Russians of their present conversations regarding international air arrangements.

In the Far East, the Russians are failing to follow the American liberals' habit of lecturing the British about the situation in India. Their press is rather conspicuously free of sermons on that subject. Moscow reveals that, though she does not desire a two-front war, she does not fear Japan, as is shown by the rather tough arrangement in Sakhalin, and with reference to fishing, which has just been brought about in that part of the world. Before Pearl Harbor, when the United States was still supplying Japan with scrap and oil and China with kind words, Russia was supplying China with the materials of war.

At the Moscow conference, the Russians had no hesitation in joining with Mr. Hull and Mr. Eden in recognizing the necessity of establishing, at the earliest practicable date, a general international organization for the maintenance of peace and security. At Teheran, Stalin, in accord with Roosevelt and Churchill, recognized the common responsibility of making a peace that will command the good will from the overwhelming masses of the people. Moscow and Teheran did not completely blueprint the future. They did, however, point the way to many forms of international coöperation which are of self-evident importance to all the nations. Neither the British nor the Americans who participated in those conferences have provided

their publics with any information to controvert the theory that Stalin and Molotov were any less sincere in their declarations than the leaders from the two other nations.

Mr. Hull has indicated clearly that one of the foundations of the war and peace policy of the United States is the complete destruction of the Nazi system which plunged us along with Japan into the war. There can no longer be any question in any informed person's mind as to the commitment of the Soviet government and the Russian people to the destruction of the Nazi system. In view of the Soviet war effort, the consistent prediction of certain writers of a separate peace between Stalin and Hitler appears ridiculous.

The Russians' self-confidence in their way of life and in their strength permits them to work for practical compromises with other nations and systems. There was a rather new development in Soviet foreign policy, beginning about 1933, at the time of the Second Five Year Plan. About this time they relied more heavily on rather hortatory appeals to the rest of the world and some other devices showing lack of internal self-assurance. Those who have followed the progressive efforts of the Soviet government to give their many minorities and nationalities a more indigenous and at the same time a richer culture of their own, while steadily according them greater and greater responsibility for political and economic matters, were not surprised with the Russian announcement recently that the sixteen Russian republics were hereafter to have some say in military affairs and foreign policy. The minorities were to participate in the state's highest responsibilities, the issues of peace and war.

This latest move was not, in my view, a hastily fabricated device for giving the Soviet Union more votes in a future world council than the British Empire or the American republics, or General Smuts' British countries plus western Europe. It was rather a logical development of Stalin's policy of according to every major racial or nationality group within the Soviet union the fullest share in the complex and abounding life of the Soviet Union and concurrently a new place in the affairs of the whole family of nations.

In October, I had the privilege of visiting one of these sixteen republics, Uzbekistan. Here, in half a generation, a

medieval, predominantly Mohammedan state has been inducted into full participation in the mass production techniques of the twentieth century. Accompanying the industrial and agricultural leap over five centuries, there has been a corresponding and almost lightning evolution from feudalism to a political and social structure that has made a backward people heir to the education, science and esthetic satisfactions of the modern world. None of these rapidly developing sixteen republics have any urge to participate in wars of aggression. Their vital interest is in the maintenance of peace and the most friendly relations in trade and culture with their neighbors. Their vested interest in peace is as great as that of every one of our own forty-eight states.

It behooves Americans to re-survey the whole history of one hundred and fifty years of relations between Russia and the United States, both under the Czar and under the Bolsheviks, as Rhea Foster Dulles has done so satisfyingly in his book, *The Road to Teheran*.

In this period of one hundred and fifty years, the United States has been at war at one time or another with Britain, France, Germany, Italy and Japan. Never throughout this period has the United States been at war with Russia. Misunderstandings have arisen from time to time between our government and both the Czarist and Bolshevik Russia but they have never issued in war between the two countries. The economic and foreign policies of the two countries have, in the main, paralleled each other. Their broad interests have been largely identical. Both have been more concerned with the maintenance of peace than in advancing their fortunes by wars of aggression, and from the time of Mr. Litvinov's first arrival in Geneva, close students of Russian political thought have no doubt but that Russia's government and people have philosophically and rationally arrived at the conclusion that peace is indivisible, that a strong, world-wide, collective security system is indispensable, that Russia will play her rôle, provided China, Britain and the United States play their rôle. If there is a retreat from Moscow and Teheran by the American or British or Chinese people, Russian policy inevitably will have to pursue another course; but if we of the other United Nations press forward in sincerity and realism, I, for one, do not expect the



Russian people to scuttle a world collective security system, because they know what war costs.

Our announced Army-Navy-Air Force dead are under 45,000. My unofficial estimate of the Russian soldier dead, not casualties or prisoners or civilians, is over 2,000,000. And as I visited bereaved Russian homes in all parts of Russia, I saw no desire whatsoever for wars to go on to the end of history.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: Whether enigma or miracle, Mr. Carter, you have helped us greatly toward an understanding of this profoundly interesting and practical problem of our relations with Russia today.

And now I presume that there are few, if any, among us who are so fortunate as never to have been presented with financial problems of our own. If there are such few, I do not address them, because they would not be sympathetic; but so far as the nations are concerned, the international financial problem is ever pressing. If there is to be any future prosperity in trade and exchange, the international basis must be sound. Otherwise, the system will not work, and we shall be in serious trouble again.

Our next speaker will tell us something about international financial organization, its workings and its necessity. He has asked me not to address him as "Doctor". I shall not do so, for he might reciprocate on me. So, I shall simply say that he is Mr. J. H. Riddle, the Economic Adviser of the great Bankers Trust Company, one of our soundest financial institutions.

## INTERNATIONAL FINANCIAL ORGANIZATION

J. H. RIDDLE

Economic Adviser, Bankers Trust Company, New York

**I**N the debate over stabilization plans and foreign credits we sometimes lose sight of more basic factors. There are two fundamental prerequisites to stabilized exchanges which should be kept in mind in any discussion of plans. One is international peace and political stability, and the other is internal political and economic order.

International political conditions constituted one of the principal reasons for the failure to achieve permanent exchange stability in the interwar period. Political fears and uncertainties not only hamper the free flow of funds in the usual channels, but stimulate flights of capital and throw international payments seriously out of balance. The restoration of genuine peace and security throughout the world will do more to promote long-run exchange stability than any other single factor.

The establishment of internal political and economic order is almost equally important. Unstable governments, unbalanced budgets, and general internal economic disorder are not conducive to balanced international accounts and stable exchange rates.

International financial organization in the transition period must be adapted to the conditions and problems that will prevail at that time. A world torn by five or six long years of destructive war cannot return to a state of balanced order overnight. Political strife and economic chaos will prevail in many areas; some countries may be without responsible governments, for a time at least, and world trade relations will be completely disorganized. There will be only a few creditor countries at most, and many debtor countries with the current balance of payments running strongly and consistently against them.

### *Stabilization Procedure*

In the world of disorder that will prevail, I can think of no more practical approach to the short-term problem of stabilization than to deal with each currency separately, beginning with

the pound sterling and other key currencies. This is sometimes known as the "key-country" approach.

The major problem will be for the great nations to put their own houses in order. If they can keep the peace of the world, bring their own international accounts into better balance, and are willing to eschew policies that depress other currencies, the major battle for world stability will have been won. On the other hand, if the great nations do not meet these requirements, long-run stability cannot be achieved. It was largely the actions and policies of the four great Powers between the two world wars that prevented a reasonable degree of exchange stabilization and economic order in the world.

#### *Stabilization Agreement with England*

The first task, if we wish to do something practical and concrete, is to work out plans with England for stabilizing the dollar-pound rate. That agreement could include provision for consultation regarding a change in rate if and when basic conditions seem to warrant, thereby protecting the pound against the effects of too great rigidity. Arranging a stabilization agreement with England faces two difficulties; one arises from differences in stabilization theories between the two countries, and the other from England's debit balance.

The English seem reluctant to tie the pound too closely to the dollar or to gold. They want some stability, but not too much stability. They are keenly conscious of unemployment problems and other domestic social issues, and seem to feel that some variability in the exchange rate may be necessary to maintain stability in the internal economy. To what extent this policy can be reconciled with the goal of international stabilization remains to be seen. I should add, however, that Keynes himself recognizes far more clearly than he did a decade ago the destructive effects of freely flexible exchanges and the necessity for substantial stability.

The second difficulty arises partly from the large blocked sterling balances accumulating, and partly from a debit balance of payments expected to prevail after the war. England has probably lost half her income from foreign investments and much of her foreign income from banking and shipping.



Most of the blocked sterling balances, however, are due to Empire countries and perhaps settlements can be reached directly with the countries concerned. England still has substantial investments in some of the countries that have built up sterling balances. Some of the blocked balances could probably be refunded into long-term securities, and some settled by the shipment of manufactured goods from England.

There is some doubt as to whether her post-war international accounts will be as much out of balance as some of the more pessimistic calculations indicate. She may produce more food than formerly. Production costs have probably been held down more effectively in England than in the United States, which should help in the redevelopment of her export trade. England's productive equipment is still in far better shape than that of other European countries, and the fact that many countries have built up balances in London will serve to give her an outlet for goods.

No doubt England will have to maintain certain exchange and trade controls until blocked balances are reduced to more manageable proportions, and her international accounts brought more nearly into balance.

It has been suggested that some of England's initial needs in the post-war period might be supplied by lend-lease. This suggestion raises difficult questions, but it might be explored, if coupled with a proviso for more definite but liberal terms of repayment. It is within the defense interests of the United States to see that England starts on the road to recovery from the great burdens which the war has imposed upon her.

Whether England will need stabilization credits, as well as how to meet these needs in a manner mutually beneficial to both parties, is a matter for careful study. As her credit position improves, she could probably float a substantial public loan in this country. To give England more time to work out her problems, we should postpone for five years the settlement of lend-lease aid, and cancel her World War I debt obligations to us.

#### *Other Currencies*

In emphasizing the need for stabilizing key currencies there is no thought of excluding other currencies from the arrange-

ments, or of neglecting them. Any country would be included in the agreements when it can take the necessary steps to stabilize. The problem of each country is different, and the nature of the adjustments to be made will vary widely. Some countries will have little difficulty in fixing and maintaining rates in terms of dollars.

Others, such as the occupied countries, will face greater difficulties. Some will suffer from internal political dissension, as well as chaotic fiscal and economic conditions. In those countries exchange controls will have to be maintained longer while they work out their problems. The task rests largely with the individual countries. No one else can do that job for them. Each country must put its internal house in order and show the necessary determination to bring its international accounts into some kind of balance. Credits should be granted only on the merits of each individual case.

#### *Responsibility of the United States*

A major responsibility rests upon the United States to take the lead in stabilization. The dollar should be the strong currency on which general stabilization efforts center. That would require the United States to put its own fiscal affairs in order, and to keep the dollar firmly fixed to gold at \$35 per ounce, with unrestricted exports and imports of gold.

The United States should also assume the true rôle of a creditor country, and give greater encouragement to the importation of foreign goods. A nation is enriched by its imports rather than by its exports. We export in order that we may import. A reduction of tariff barriers would facilitate the development of multilateral trade and the solution of exchange problems. If we accept more foreign goods, other countries will have more dollars with which to buy our goods. A greater willingness to accept British goods would facilitate the working out of a stabilization agreement with England.

#### *International Bank*

Some kind of international institution is desirable as an aid to stabilization efforts, but it should not have broad powers of control over international trade and the economic affairs of nations. It might be an international bank with a simple struc-

ture and limited powers, acting largely as the instrumentality of the principal central banks and treasuries.

I have in mind an institution similar to the Bank for International Settlements, which, if freed completely from reparation payments and German influence, and with certain other charter changes, could be adapted to the new problems. If the prejudice which has grown up against that institution would prove to be a handicap, however, a new organization along similar lines, with necessary modifications, could be established.<sup>1</sup>

Such an international bank would be a meeting place for central bankers and treasury officials to discuss monetary problems. A central place for officials to meet and exchange ideas would promote among them a better understanding of one another's problems and encourage maximum coöperation in monetary matters. Principal reliance for the success of the institution would be based on friendly official and personal relationships, information and persuasion. Free collaboration by the nations, rather than compulsion, would be the basis of operations.

One function of the bank would be to collect international statistics and other information. It would maintain a corps of experts and make comprehensive studies of the exchange problems of various countries. It would become a consultative body on international monetary matters, including proposals for changing rates to meet basic conditions. Its expert knowledge and advice could help guard against too great rigidity of rates as well as against hasty and ill-considered changes that might lead to retaliatory measures.

The bank could handle international clearings, including gold clearings, thereby facilitating international transactions and minimizing gold shipments. It would have only limited lending functions; the major credits would have to come from the creditor countries. However, countries could grant mutual aid through its facilities. The bank could aid in the negotiation of stabilization credits which might be extended by the

<sup>1</sup> The institution suggested here should not be confused with the United Nations Bank for Reconstruction and Development proposed by Treasury experts for encouraging or providing long-term loans.

creditor countries, and could aid in the servicing of international loans.

The international bank would extend limited credits to cover seasonal or other purely temporary needs, thereby enabling countries to avoid exchange difficulties or rate changes because of a temporary lack of balance in their international payments. In this way it would facilitate the operations of existing banking machinery for financing international trade and for making current international payments. In no sense should it be an eleemosynary institution. It would not grant long-term loans, or make loans to cover the chronic lack of balance in a country's payments.

The International Bank would not require a big capital fund, probably not over \$500 million. Central banks and governments would supply the capital, but subscriptions from all countries would not be essential. A few founding countries could subscribe for the majority of the shares and organize the institution.

#### *Keynes and White Plans*

The Keynes and White plans for stabilization have been under discussion about a year. Many changes have been made in them and the discussions are continuing with a view to arriving at some agreement between the experts of the various countries. What the status of these plans is today or what the ultimate compromise may be, we do not know.<sup>2</sup> If finally reduced to some simple, practical organization, it may find acceptance.

In their original forms, however, those plans were entirely too ambitious and quite impractical. They relied rather heavily upon generous credits to solve the world's difficulties. They provided for credits based on quotas or formulas that had little relation to credit needs or credit worthiness. They seemed wholly unsuited to the conditions that will prevail in the transition period. If a stabilization fund of the kind suggested should be established now, it would inevitably be utilized to

<sup>2</sup> Since the delivery of this address, the monetary experts of the United and Associated Nations issued on April 21 a statement of principles which had been agreed upon as the basis for the establishment of an international monetary fund.

finance some of the chronic debit balances of the transition period, and might be left in such a frozen condition as to interfere materially with its usefulness later on. The original plans provided for broad controls over international transactions and seemed entirely too complex to be generally acceptable.

### *New Mechanisms and Generous Credits*

In spite of past experiences the belief still seems to exist in some quarters that the world's economic problems can be solved by elaborate new mechanisms and generous credits. There is no magic in mechanisms, however, and there are a great many problems that credits cannot cure.

After the last war, there was a great demand for new facilities to finance foreign trade. A number of organizations were established for that purpose, both in this country and in England. The imposing list of names includes: The Mercantile Bank of the Americas, Inc., The American Foreign Banking Corporation, the Asia Banking Corporation, The Park-Union Foreign Banking Corporation, The Foreign Credit Corporation, the Federal International Banking Corporation, and the First Federal Foreign Banking Corporation. The British list is almost as imposing. Mr. Wilbert Ward, Vice President of the National City Bank of New York, in a recent survey of these institutions and their activities said that "On both sides of the Atlantic they dissipated their capital, and made no important contribution toward achieving the objectives outlined in their prospectuses."<sup>3</sup> In the course of a few years they had run into difficulties; some disappeared and others were absorbed by older institutions. Much of the capital funds put into those institutions was lost.

Substantial amounts of long-term loans were also extended to European countries in that period. Of the loans made by the United States government to foreign governments in connection with World War I, about \$3 billion were advanced after the Armistice. A large portion of them went to continental Europe, either directly or through England. There were also substantial private loans made to Europe during the 1920's, perhaps as much as \$2 or \$3 billion. These loans and the

<sup>3</sup> Wilbert Ward, "Foreign Trade—Post-War Plans and Prospects", a reprint from *Burroughs Clearing House*, January 1944.



agencies for financing foreign trade, however, did not result in any lasting stabilization of European currencies. On the contrary, they increased long-run exchange difficulties, as a rule, because they piled up additional debts and lulled borrowing countries into doing nothing about needed readjustments in their affairs. The fact is that we were generous with credits during that period, but generous credits do not solve stabilization problems.

The purpose of stabilization efforts should be to make the participating countries self-reliant. Loans and credits granted to a debtor country should enhance its productivity and increase its power to meet foreign obligations. Foreign credits granted for nonproductive purposes, with no clear prospect of creating additional exchange resources, will accentuate exchange difficulties rather than relieve them, as we saw in the interwar period.

To grant credits to a country simply because it has an unfavorable balance of payments would be somewhat like making loans to a corporation because it operates in the "red". Either condition may indicate the need for reorganization and new policies. The London *Statist* has said:

There is no method better calculated to perpetuate disequilibrium than the distribution of largesse on an international scale to all countries whose balances of payments happen to be in debit. There is far too marked a tendency among academic commentators on the currency schemes and on the world capital bank plan to regard the existence of a deficit in a country's balance of payments as sufficient reason for granting it help in the shape of short- and long-term credit.<sup>4</sup>

America will aid in the relief and rehabilitation of many of the war-torn countries, but we should make a sharp distinction between relief and credits. Let us not grant relief in the form of credits that cannot be repaid, thereby piling up international obligations that will bedevil the exchanges and our international relations for decades to come. A United Nations relief organization has already been established to which the United States has and will continue to contribute generously. Perhaps other aid could be granted through lend-lease. Our government will possess large stocks of equipment, machinery and other materials for which there may not be much demand in this

<sup>4</sup> *The Statist*, International Banking Section, November 27, 1943, p. 4.

country, but which might be lend-leased on liberal terms of repayment.

### *Foreign Buying Power in This Market*

It is incorrect to assume that foreign countries are without reserves of buying power that can be utilized in this market. It is estimated that foreign countries own approximately \$13 billion of gold, and foreign banking funds held in the United States aggregate about \$5 billion.<sup>5</sup> That makes a total of \$18 billion of gold and dollar exchange held by foreign countries, not including foreign investments here probably aggregating \$5 or \$6 billion. The world's production of gold outside the United States will probably rise rather quickly to over \$1 billion per year after the war.

The principal source of dollars for foreigners, however, will be our imports, visible and invisible. The greatest single contribution that the United States can make to the recovery of the world and to stabilization efforts will be to maintain prosperity in this country. The volume of our imports varies directly with our business activity. A high level of activity requires a high level of imports. The Bureau of Foreign and Domestic Commerce has estimated, on the basis of certain assumptions as to gross national product, that our merchandise imports might aggregate over \$6 billion by 1948, and invisible imports, plus long-term capital transactions, another \$4 billion.

How the United States can maintain a high level of business activity is not within the scope of this paper. Free private enterprise can perform this service for the country and the world, however, if the investment incentive is not too severely repressed.

There seems little doubt as to the ability of our present banking system, with its foreign branches and connections and years of experience, to finance any amount of foreign trade that may develop, and to grant terms to foreign importers of raw materials that will cover the time necessary to process the goods and export the finished products.

### *Long-Term Loans*

There will probably be substantial foreign demand after the war for American capital for reconstruction and developmental

<sup>5</sup> Including a limited amount of securities maturing within one year.

purposes. If an era of genuine world peace can be restored, no doubt in time a natural flow of private capital to foreign countries will develop. For the time being, however, there may not be much enthusiasm on the part of private investors for foreign securities. Temporarily, some governmental agency may have to be the spearhead for long-term foreign loans. Since the United States will be practically the only important creditor, with many debtors, the suggestion that the loans be made by some institution with an international board of directors seems unacceptable.

I suggest that we explore the possibilities of expanding the powers and functions of the Export-Import Bank with a view to making it the center of our foreign long-term loan activities in the transition period. The organization is already set up and has had years of experience in dealing with foreign countries. Apparently its commitments have been made with care and the Bank has been able to avoid some of the pitfalls of private investment during the 1920's. As in the past, the funds used might be supplied chiefly by private sources under the guarantee of the Export-Import Bank.

It would be a healthy development if the flow of long-term productive capital to foreign countries could take the form of direct investments, or the purchase of equities, rather than of loans. It would allow greater latitude of time in making transfers and reduce the burden on international exchanges, because returns would not run counter to the exchange position of the capital-importing country. On the whole this type of investment seems to weather economic storms better than fixed-interest investments. One suggestion that may be worth pursuing is that with suitable government attitudes our industries might participate directly in helping to reconstruct European industries.

#### *Limitations on Commitments*

The extent of our credits, loans and investments abroad will presumably depend largely upon the kind of world that will develop, and the extent of intergovernmental guarantees against confiscation. The international political outlook is by no means clear. Different political ideologies will prevail in different parts of the world, and we do not yet know what spheres of in-

fluence may develop or what kind of international organization may be set up. The outlook for the development of foreign trade is equally obscure. Different kinds of economic philosophy and trading practices will prevail among the nations; government monopoly of foreign trade in some cases, cartels, division of markets and preferential arrangements in others. How will this affect the course of our efforts at free competitive enterprise?

These uncertainties would seem to suggest caution against large-scale global credit commitments. It may be wise to limit the scope of our future commitments and to concentrate on those areas and countries which are more directly associated with our interests, at least until we see what the new world order will be.

### *Summary of Conclusions*

(1) The major contribution which this country can make to stabilization efforts would be to maintain prosperity at home, thereby encouraging imports and supplying dollars with which foreigners can buy more of our goods.

(2) The United States should put its own finances in shape and make the dollar the strong currency on which stabilization efforts center. The dollar should remain firmly tied to gold at \$35 per ounce, and both exports and imports of gold should be unrestricted.

(3) Each country must restore internal order and put its own finances in shape before its currency can be stabilized. These measures cannot be imposed from without.

(4) Exchange stabilization must be worked out country by country, and credits must be considered on the merits of each case. The chief problem is for the major countries to keep their own currencies stable, and to follow policies favorable to international stabilization.

(5) In so far as possible, reliance should be placed upon existing financial agencies, with necessary adjustments, instead of establishing elaborate new international financial mechanisms.

(6) An international bank with a simple organization and limited powers seems desirable to facilitate international settlements, to direct international financial studies, to serve as a

meeting place for central bankers and monetary authorities, to act in a consultative capacity regarding stabilization problems, and to grant limited short-term credits.

(7) Long-term reconstruction and developmental loans can be made by an enlarged Export-Import Bank, or private funds can be advanced with the guarantee of the Export-Import Bank.

(8) There should be a sharp distinction between gifts and credits. Credits that cannot be repaid create exchange difficulties in the long run.

(9) Direct investments abroad should be encouraged by suitable governmental policies and guarantees against confiscation. Where long-term loans are essential they should be limited to productive purposes which are calculated to produce foreign exchange sufficient to service such loans.

(10) Until we know more about the political complexion of the world and the various spheres of influence that may develop we should avoid global credit arrangements and restrict our commitments to particular areas and countries.

(11) Lasting international peace and political stability are prerequisites to permanent stability of currencies. Without these, no stabilization measures or plans can succeed in the long run.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: I congratulate Mr. Riddle on his ability to make clear so many apparently difficult and intricate questions of finance.

All of us who listen to the radio know the next speaker. He keeps us informed concerning the military movements in this war. But he is more than a great technical commentator on military affairs of which he is a master. He is also a man who has thought deeply on post-war problems. Anyone who wants to understand the world that we are living in today, and the world that we must fashion after the war, if a victory is to be worth achieving, should read a very interesting book that I picked up last night at the bookstand. It is one of the best books recently written on the war, and it was written by Major George Fielding Eliot, for whom we all have a high regard. Major Eliot, we wish to hear from you!



## REQUIREMENTS OF THE WAR IN THE PACIFIC

GEORGE FIELDING ELIOT

Former Major, Military Intelligence Reserve, United States Army

Military Analyst, *New York Herald-Tribune*

Radio Commentator

I AM asked to speak to you on the subject, "Requirements of the War in the Pacific". While that is a very wide subject, just as it is a very wide ocean, I will try to analyze briefly the war in the Pacific from the point of view of time and from the point of view of geography.

From the point of view of time, the Pacific war may be divided into three phases. The initial or defensive phase is that in which the initiative lay with the enemy, and in which the United Nations were concerned only with defending themselves as best they could. We lost most of our outposts near Japan; indeed, it was the enemy's first purpose to deprive us of any bases near the Japanese mainlands. Our defensive purposes were, therefore, initially to protect our great outlying bases in Alaska, in the Hawaiian Islands, in Australia and in India—more we could not do—and secondly, so far as we could, to bring relief and aid to our great continental ally in the Far East, the Chinese Republic.

We began, therefore, with a defensive problem. It was not only a strategic problem, it was a great problem in logistics. The establishment of secure lines of communication through the Indian Ocean, to India and Ceylon, from India into China by air, since that was the only means available to us, and across the Pacific Ocean to Australia—this was the tremendous task in the field of logistics which we had to undertake during the defensive phase of the war.

The defensive phase came to an end as the Japanese reached the high watermark of their achievements. They reached this mark, or rather these marks, on the frontiers of Burma, at the battle of the Coral Sea, which was their last effort to strike southeastward toward our line of communications with Australia, at the battle of Midway, which was their last offensive

effort in the Central Pacific, and with the loss of the islands of Attu and Kiska, which represented the farthest of their achievements in the North Pacific.

In these various parts of the great theater of war, these operations represent the last enemy offensive efforts. From then on, slowly and steadily, the initiative has passed to the United Nations, and the enemy has been forced back on the defensive.

The second, or intermediate, phase of this war is the preparatory offensive phase in which we are now engaged. It is the phase in which we must recover many of the positions we have lost to the Japanese, and in which we must gain positions from which we can strike for a decision. In the geographical sense, of course, these operations are divided into two parts, the Pacific part and the Southeast Asia part.

As we turned to the offensive, we began with the seizure of the Japanese air base on the island of Guadalcanal in August 1942, only nine months after the disaster at Pearl Harbor. Now that we know the extent of that disaster to our fleet and to our major Pacific base, we can regard only with awe and admiration the resourcefulness, the boldness, the moral courage of the High Command of the United States Navy when it was able in such a short time, after such a tremendous disaster, to take the offensive even to this limited extent.

We made good our hold on Guadalcanal by terrific efforts and at considerable risk, and from then on we have gradually progressed.

The first task of the Southwest Pacific forces was to secure the safety of our line of communications with Australia and the safety of the Australian continent itself against Japanese attack. That might be called an offensive-defensive purpose. Since then the Southwest Pacific has become what is called "a holding attack", and for a long time there was a great deal of criticism in many circles because the Southwest Pacific did not seem to be getting as much in the way of ships and men and airplanes and munitions of war as many in this country thought it ought to have. It was not then possible for the High Command to explain to the critics that the Southwest Pacific was a holding attack, that the main attack on the Japanese outpost system in the Pacific was going to be made in the Central Pacific, that the forces were being gathered for that

purpose, and that you do not reinforce a holding attack beyond the point of absolute necessity for the discharge of its mission because whatever you do give to it is a subtraction from your main effort and therefore an advantage offered to the enemy.

These facts could not be made clear to the American people because in so doing they would have been made clear to the Japanese, and they were to be made clear to the Japanese only when Admiral Nimitz began the series of blows which he has rained upon them ever since he began with the taking of the island of Tarawa.

In the intermediate phase, the phase of the turn to the offensive, the preparatory phase, this Central Pacific operation is probably at the moment the main Allied effort. Its purpose is to drive the Japanese from all of their island outposts in the Pacific, to push forward until our naval forces and air forces are in a position to interrupt the vital Japanese lines of communication south of the Japanese main islands, that is to say, in the area where the island of Formosa lies off the coast of the Asiatic continent.

Now that is the crucial area in this part of the war. It is of vital importance. You might call it the strategic triangle, Hongkong-Formosa-Luzon. The reason for its importance, and the reason why it is the objective of our Pacific offensive, is that when we are able to dominate those waters we do two things. First of all, we cut the Japanese off from South China, with which they are connected only by sea, from the Philippines, from the Netherlands Indies, from French Indo-China, from Malaya, Thailand and Burma. All of their troops in those parts of the world become dependent upon local resources which can supply them with a certain amount of food and can supply them, of course, with raw materials which they have no means of processing, but cannot supply them with ammunition, with weapons, or with military stores of the sorts needed by a modern army.

Also the Japanese industries at home, which is the only place where Japan has industries of any consequence, excepting to some extent in Manchukuo, are cut off from their sources of oil, from a great part of their iron, and from their tin, their rubber, and the other raw materials which form the loot of the conquered areas with which the Japanese had hoped permanently

to replace the loss of those imports from the United States and elsewhere upon which their industry had so long depended.

That is the first thing you do when you come across the Pacific and establish yourself as master of the area between Formosa, the Chinese coast and the northern part of Luzon.

The second thing you do is to open a route to China. Now it has long been clearly evident that the only way to bring relief and aid in any quantity to China, in any worth-while amount, and the only way to set up on the continent of Asia forces of the United Nations capable of bringing about a decision in the war with Japan, is by sea. The land communications of China are even worse than the land communications of Russia, as available to us now. We cannot get into China from India except by climbing over the Himalaya Mountains, and there are no good roads over those mountains and in all probability there never will be. You have to fly over them, or you have to go over them on roads of the utmost difficulty and of very low capacity. The best Chinese estimate on the capacity of the famous Burma Road was about fifteen thousand tons a month. It takes four thousand tons a day to supply a single army corps. One hardly need say more. A single tanker, a large-sized modern tanker, arriving alongside a dock in Canton or Hongkong would discharge more cargo in the way of aviation gasoline, for example, than you could haul over the Burma Road in a month. So if you are going to China as Admiral Nimitz quite frankly says he is, you have to go by sea, and you do that, too, when you penetrate to the Chinese coast in the area of which I have spoken.

There is your main attack and it is making good progress. It has just about sickened the Japanese in the matter of holding isolated outposts to be destroyed one by one by irresistible concentrations of power. It has broken down the long-range Japanese air power in the Pacific. It has driven their fleet to cover, and one by one it is picking off the islands on which they had depended so much, taking the ones that are necessary for us for use as bases as we advance, leaving the others, in Admiral Turner's trenchant phrase, to wither on the limb. This is island hopping and it turns out to be a pretty good form of offensive strategy.

What we are doing in the Northern Pacific is more or less of a diversion, though it is an important diversion. We are raiding the Japanese bases in the Kurile Islands. Now the Japanese cannot go away and leave the Kurile Islands undefended. If they do, we shall move forward with nuisance bases just that much closer to their main centers. They cannot afford to allow us to become established in Paramushiru, much less in any of the Kurile Islands closer to their main islands. So they have to defend them, and we keep on threatening them, and we are diverting very large Japanese defensive establishments with forces which, so far as has appeared in any communiqué, do not consist of anything very formidable.

Now the Southeast Asia part of this operation is very important and indeed an essential part of it, because that is where the Chinese are getting all the supplies that we can send them by the means now available to us. We are flying those supplies in by a perfectly magnificent system of air transport, operating from bases in the Indian Province of Assam and flying in to bases in China which have road communication, and railroad communication to some extent, throughout the areas which the present Chinese government dominates.

It is also necessary to remember, in considering the military situation in China, that the Japanese do not have rail communication between their various areas, except between North China and the mouth of the Yangtze River where they do dominate a long stretch of the Peiping-Nanking Railroad. Their communications with Hankow, for example, which is their main base in Central China, is not by the direct Peiping-Hankow Railroad, because the Chinese sit on most of the portion of that railroad which runs through the Province of Honan. The Japanese have to go to Nanking, and then they have to go up the Yangtze River to get to Hankow; and that is one reason why they have never been able to build up a great offensive striking force in Hankow for operations southward.

Similarly, they cannot go directly from Hankow to Canton, which they hold. The Chinese hold almost the whole of the intervening railway lines, centering in the great Chinese city of Changsha which the Japanese have so often vainly attacked.

Similarly, the Japanese cannot go directly from Hangchow (south of Shanghai on the coast) to their garrisons south of the



Yangtze River farther to the westward along the railway which exists from Hangchow to Changsha, because the Chinese hold two different bits of that railroad line.

If the Japanese could establish control of these railways, they would then be able to move inside China with great facility and they would immensely relieve the strain on their shipping. Now their shipping is their lifeblood, so far as all of their overseas external efforts are concerned. They have got to keep enough shipping going to supply their garrisons and to bring raw materials and a balance of foodstuffs to the Japanese people and Japanese industry, and they are losing shipping at a rate they cannot afford.

They cannot, for instance, afford to have a hundred thousand tons of it knocked off at one blow, as happened when we caught what seemed to have been certain supply elements of the Japanese fleet assembled in the harbors of the Palau Islands. The farther our blows range, the more effectively they are struck, and the greater the development of our air and naval domination in the Central and South Pacific, the greater the Japanese problems become with regard to land transport on the continent of Asia.

We are trying to open a road into China to supplement the efforts of our air transport, and the reason for trying to do that is not that we can, by that means, build up a great Chinese Army, but that we can haul in certain elements necessary to increase the size of the very small American Air Force and the small Chinese, American-trained Air Force which is supplementing the efforts of the Chinese armies—efforts which are largely defensive for the time being. The reason the Japanese have failed in their attempts to take Changsha, the reason the Japanese have failed in every attempt they have made to extend any of their holdings in South China, is very largely the fact that they have not been able to meet, in the air, the American and Chinese fliers. The Chinese forces have enjoyed qualitative air superiority, not always, but they have for the last year or two, certainly since General Chennault has been in there; and gradually that little force has been built up, bit by bit, though it still suffers under very severe handicaps. Chennault still has to collect, painfully, the materials and fuel

necessary for any offensive effort. He can carry on for a little while, but he must then start the business of building up supplies again. He cannot carry on continuous operations on a large scale.

If we can open a road into China—and I will not go into figures because I am rather mixed up in my mind as to which of these figures are confidential and which are not—we can very greatly supplement what is being done by air now. We might, with a road open, be able to build Chennault up to a point where he could conduct continuous operations and, for the time being, at any rate, considerable offensive operations.

That would be about all we could hope to do. We could not build a great Chinese Army.

We might be able to give sufficient offensive power to our Air Force to enable it to support the Chinese in an attack upon the isolated Japanese positions at Canton and Hongkong, and so obtain a port through which the supplies, the shipping, that Nimitz will presently be able to escort across the Pacific, could enter China and could by means of the Canton-Hankow Railroad and its feeder lines reach the Chinese people and the Chinese armies. This is an essential part of this whole operation, which, as you now begin to see, all ties together.

What is happening right now in Burma is that we have pushed southward our road from Ledo, which is the end of the Indian railway system, the eastern terminus of the Burma-Assam Railway, toward a place which is spelled M-y-i-t-k-y-i-n-a, and, believe it or not, is pronounced "Mishinau", which is the end of the Burma Railroad, but which also enjoys a highway leading to Bhamo and so to the old Burma Road at the Salween River. If we can complete that road, which we can do only if we can take this place, Myitkyina, away from the Japanese, then we have road communication open from the end of the Indian railroad system into China.

We dropped some air-borne troops on the Japanese communications in Central Burma with great boldness, and about the same time that we began these offensive operations, the Japanese apparently undertook offensive operations of their own. I do not think the one was the answer to the other. I do not think the Japanese could have done it that fast. I think

they just thought they would make an attack and try to cut our rail line, the Assam-Bengal railway, and probably destroy the assembled stores in the advance base at Imphal. I do not think the Japanese have any idea that they can maintain themselves so far from their bases and with such poor communications as their forces in the state of Manipur now enjoy. I think that they are trying to prevent the completion of the Ledo Road this year. They are playing for time. If they succeed in cutting the Assam-Bengal railway and destroying any great amount of the line, and if they succeed in drawing upon themselves troops and men who otherwise would go into our offensive operations in North Burma, they may succeed in that limited objective. That remains to be seen. I doubt that they can do it, but the situation is extremely fluid, as you would say, if you could see an operations map showing the location of troops scattered all over the place. Our people are behind their lines and theirs behind our lines. We are on their communications and they on our communications. It is terrific. I never saw anything like that in my life.

Meanwhile, as to more extensive operations in the Southeast Asia area, we know only that the Prime Minister has said that there is a large British battle fleet in the Indian Ocean, and the British, of course, must be prepared for Japanese naval attacks in that area. The Japanese Navy is very badly in need of a prestige victory and probably the bulk of it is now in the South China Sea, in a central position, where it can strike either westward against the British or eastward against an American detachment, if it gets the chance.

This is the present phase, the intermediate phase, of this great war, and the objective, the final objective, is to cut off the Japanese from their sources of supply and to cut off their outlying garrisons, and to get onto the continent of Asia with powerful United Nations forces which can then begin the third and decisive phase of the war against Japan. This will come when Japan is completely cut off from her outside sources of supply by sea and when her rather limited industrial areas are being destroyed from the air. Before that happens, we shall have very severe land fighting with the Japanese armies. I believe that that land fighting will take place on the Asiatic conti-

nent and principally in Chinese territory. I think that the beginning of that phase of the war will roughly coincide with the defeat of Germany in Europe, and I believe that, at that point, it will be to the interest of the Russians to come into the Eastern war. I think that their entry will very greatly serve to shorten it and to bring it to a victorious termination.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: We are indebted to the Major for that account of the tremendous and dramatic struggle in the Pacific. We can all be greatly proud of our Navy and its achievements so far.

Now, according to our custom and good American usage, in the very few minutes that remain before the lunch time, there can be a brief discussion from the floor, under the five-minute rule. So, I am prepared to hear anybody who wants, within that time limitation, to say anything regarding the wide range of subjects which we have considered this morning. Do I see anybody who would like to address the meeting? If not, I am constrained to rule that the time for intellectual nourishment is over and the time for physical nourishment has begun, so that the physical man and the spiritual man can be in complete harmony, and, so saying, I declare this meeting adjourned.

## PART II

### THE PASSAGE FROM WAR TO PEACE AT HOME

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#### INTRODUCTION \*

PIERRE JAY, *Presiding*

Chairman of the Board, Fiduciary Trust Company of New York

**S**INCE I am substituting this afternoon for Professor Wesley Mitchell, who was called away, I am going to follow his simple concept of the duties of a presiding officer. Perhaps they may be compared to the simple duties of the President of the United States, on certain occasions; for example, in the spring, when he arises from his seat in the ball park of the Washington "Senators", picks up the ball and throws it into the diamond, thus opening the season.

So I am simply going to call upon our first speaker this afternoon, Dean Clare E. Griffin, of the School of Business Administration of the University of Michigan, and, on your behalf as well as my own, thank him for his kindness in coming this long distance to address us. Dean Griffin!

\* Opening remarks at the Second Session of the Semi-Annual Meeting.



## BARRIERS TO FULL EMPLOYMENT AFTER THE WAR

CLARE E. GRIFFIN

Professor of Business Economics, University of Michigan

**I**N the time at my disposal I shall obviously have to limit my remarks in several ways. In the first place, by the period after the war I shall have in mind not the immediate period of conversion, nor even primarily the period in which we can assume that war-created factors, such as the accumulated savings and backed-up demands of consumers, dominate the scene. Rather, I shall be concerned with the later period, in which the economy must operate on a self-sustaining basis. Neither shall I be concerned primarily with the so-called problem of the business cycle. And lastly, I must qualify the term "full employment". This, of course, is an ambiguous phrase, and if it is used in the sense that everyone who may wish to work can immediately find work, it is probably unattainable in a free system. It is not for my purpose necessary to try to define it in quantitative terms. Furthermore, I am concerned with the employment in private industry and shall not raise the question of how much employment the community may desire in publicly sponsored activities. I have in mind, then, the problem of removing barriers to the attainment of a high level of productive employment by private industry.

### *Employment and Business Expansion*

The maintenance of employment, I take it, depends upon the expansion of business activity. Not only is this obviously true when we start with a condition of underemployment, but it is also true as to the maintenance of any given level of employment. In other words, there are certain forces in our economy which require continual expansion in order to maintain a given level of employment. These forces lie in two features of our system—first, in the relation of saving, spending and investment. If the American people in any year save a certain proportion of their incomes, that is to say, merely refrain from

spending, that creates the necessity, if full employment is to be maintained under private enterprise, for the absorption of this amount of savings by private enterprises or individuals for capital uses. If the amount saved is thus absorbed, production and employment can continue at the existing level. To a considerable extent the funds thus absorbed will be used for production and thus will increase the volume of production, which in turn will mean, if the saving propensity remains unchanged, a larger saving in the next period, thus making it necessary for capital absorption also to increase. This tendency for saving and investment to lead to increased production in part grows out of the use of increasing amounts of capital, but it is also enhanced, through the progress of technology, by the increasingly productive forms of capital. Thus, from this saving and the productive use of savings and from the progress of technology, there arises a necessary growth factor in modern industry which at the same time offers our brightest hope for improving living standards and also the greatest challenge to free enterprise. For we are in the position described by Alice in Wonderland in which "we have to run fast in order to stand still."

An expansion of business activity may be merely the more complete use of existing plant and equipment and the corresponding absorption of funds for increased circulating capital. Such business expansion will obviously put men to work and increase production, but, in view of the saving tendencies mentioned and the progress of labor-saving inventions, there is also needed, even in order to maintain employment at a high level, an expansion of plant and equipment. These are the forms of expansion which most clearly absorb or offset the savings of the community.

From these considerations it seems clear that a static capitalism is a contradiction in terms and that change and progress and expansion are necessary characteristics of a free enterprise system.

### *Enterprisers and Expansion*

Can we more specifically put our finger on the place where jobs originate? There is, of course, a circular flow of funds which gives rise to rich opportunities for disagreement as to

what for practical purposes can be treated as the starting point. Enterprisers employ men and use materials to produce goods. They pay for the services and materials and those payments constitute incomes. The incomes are in part spent and in part saved. In so far as they are spent they buy the goods produced and thus provide funds with which the enterpriser can, if he so decides, produce more goods. In so far as they are saved they provide funds with which the enterpriser can, if he so decides, expand his operations, and if he does so absorb and use them the process goes on. Considering the alternatives and the conscious decisions at various points in this circle, I suggest that there is merit in the common-sense view that jobs in private employment result from the decisions of business men. In somewhat more than the obvious sense, employment comes from employers. Lying back of this immediate cause are, of course, a number of other factors. There are the desire and the ability of consumers to buy goods; there are the supply and willingness of workers to work; there is the willingness of creditors to lend funds; there are the terms on which these groups are willing to coöperate—the prices consumers are willing to pay, the wages workers are willing to accept, the interest rates that lenders demand. These and other factors all play a part in the decision, and at times some of them may be crucial parts. But the mere desires of consumers for goods or willingness of workers to work or of investors to invest—no one of these, nor the combination of them, will put men to work in private employment except as those factors influence some business man to take the step of hiring them.

Early economic reasoning largely avoided this problem by assuming that all factors in an economy would find employment and that the problem of the enterpriser, as someone has recently described it, is to turn the valves so as to regulate the flow of these productive factors in order that their convergence in the proper proportions yields desired goods. That seems to me to be an unrealistic, even though possibly a logically defensible, analogy, and our common-sense way of describing the function of a modern entrepreneur quite properly rejects it. We say, for example, that James J. Hill built the Great Northern Railroad. Of course, one could say that Hill merely regulated the flow of productive factors in such proportions

and in such ways as to yield this product. But I think that a man like Hill, or Henry Ford, or Henry Kaiser, who has conceived a new product or dreamed of a new industrial empire, and who through his initiative and energy has carried it through to realization, would not recognize the description of his job in terms of regulating and determining the proportions of the productive factors. It is a more dynamic and creative function than that, and in that respect the common sense of the man in the street has been more accurate.

I take the view, then, that in a private enterprise system the most significant point in the circular flow of production, incomes, spending and saving is the enterpriser at the moment when he decides whether or not to go into business, buy new equipment, put in new show cases, establish a branch office, or otherwise expand his scale of operations. This decision will be made as the result of a complex of his basic desires and ambitions and the prospects of satisfying them. In a free country individuals, including the business man, must be induced rather than ordered to do those things which are desired by the community. The problem of maintaining a high level of productive employment can therefore fruitfully be viewed in terms of the incentives for business men to expand productive activities.

### *Characteristics of the Enterprisers*

The basis of any discussion of incentives for business enterprisers, it seems to me, starts with a consideration of the characteristics and interests of those men. Professor Taussig's lectures on Investors and Money Makers and the later studies in economic motivation are pertinent to the problems of full employment. I shall not here, however, attempt any formal analysis of the motivation of this group of key men, but shall content myself with a few observations in nontechnical terms on their attitudes and interests as I have observed them.

In the past year I have talked with a considerable number of business men who, in large and small concerns, are in positions of responsibility for determining or influencing decisions for business expansion. I have tried to find what were their attitudes in matters relevant to expansion and what were their obstacles as they saw them. These men are not given to introspection, and hence an investigator must largely draw con-

clusions from indirect evidence such as might be differently interpreted by different observers—which means that any such summary falls short of being “scientific”. I have, nevertheless, formed certain impressions of their attitudes and interests which I would like to summarize as possibly noteworthy features of the genus enterpriser.

In the first place, to a notable degree he identifies himself with his enterprise. In this respect he is not different from many others. The point is only worth noting because it is so commonly assumed that, representing the economic man, he is consciously and exclusively concerned with personal income. Of course, the enterprise is a means of providing that income, and the two interests are usually in harmony. Nor do I imply that he is in business for his health, and if I did, he would be the first to deny it, but the object that will most surely determine his action or inaction is the welfare of the concern. The more individualistic personal interests underlie this object and are no doubt fundamental, but this is the one that immediately leads to action. Burdens, therefore—for example, taxes—that affect the profitableness, or progress, or solvency of the concern are likely to be more influential in determining action than equivalent burdens upon him as an individual.

Moreover, this loyalty to the enterprise becomes a virtue in his eyes, and he judges the action of others by this standard. Forces, therefore, that breed dissension and disloyalty to the institution appear to him to be fundamentally and obviously evil. The bitterness toward some labor leaders, especially those from the outside who try to encourage discord and establish and set up labor as a hostile group against management, is not to be explained merely in terms of wage rates or other concessions that may be forced by such tactics. They strike much deeper at his basic interests than that. And, accordingly, he is both puzzled and resentful of labor legislation and administration that seems to imply that the only proper relation of management and worker is bargaining at arm's length. The fun of running a business may be enhanced by conflict with rivals, but not by continual bickering and strife within it.

Another feature of these men is a keen pride in accomplishment which may find satisfaction in the product itself or in the growth of the concern or the profitableness of the concern. It



is a feature that lends itself to expansion: to devising and making newer and better products, seeking new markets, adding equipment and plant. On the other hand, it may lead merely to buying existing plants and contriving larger aggregations of productive power without adding to the total of production and employment. Moreover, his pride in accomplishment, identified as it so often is with the firm, may lead not to pushing ahead but to consolidating a position and seeking security through restrictions on output. Which way this force goes is obviously a matter of concern to the public. For it is a potent force; it leads men to drive on when they have made their fortune and when they know that the largest part of additional personal earnings will be taken in taxes.

Another observation of these men is that in personal attitudes they are highly competitive, and that characteristic is not inconsistent with certain live-and-let-live policies which prudence may require or even with such arrangements as may possibly be regarded as collusive. Where such limitations do exist there is often intensified evidence of rivalry in other respects. This is not the same as individualism. The individual may be playing only a specialized rôle in the team, but the awareness of his team against others is very strong. It is a powerful factor making for expansion on the part of established companies. "We can't afford to let our competitor get out ahead" may be a potent argument for expansion that combines with, or even overrides, a nicely calculated prospect of personal gain.

Then there is a rather highly developed desire for effectiveness—perhaps what the older psychologists called the instinct of workmanship. It can be expressed in operating a most modern and efficient plant, in eliminating unproductive operations and making technical advances in production. It also shows itself on the financial side in the balancing of costs and values and still further in the respect for financial solvency. No doubt by natural selection, business leaders large and small give solvency a very high rating in their scale of values and again they apply it not only to themselves but to others and not only to business enterprises. The attitude of Mr. Day in *Life with Father* toward the minister of his church, who was uncommonly vague about finances, is not utterly unlike the attitude of business men toward a government that does not

regard a balanced budget as of great importance. If you convince my typical business man of the merits of continued deficit spending it will be merely an intellectual and not a spiritual conversion. It runs counter to his deeply grounded faith, and no matter how plausible the argument or even how immediately beneficial the results may be to him personally, he will still feel that there is something "fishy" about it and that it will ultimately "catch up with you." Call it prejudice, if you wish, but it must be kept in mind in any program designed to encourage business confidence through artificially created purchasing power.

He has, moreover, along with most of us, a desire to be well regarded. That desire may extend only to the members of his own group—perhaps it was so limited in the "public be damned" days. But I find little evidence that it is so restricted today. Men who have devoted their years to building a business resent being branded as public enemies and exploiters of labor, and generally being consigned to the doghouse. Nor does such an attitude on the part of the public or of its leaders encourage men to assume risks and do creative work. For it robs them of the reward of public approval, which to many of them is highly prized. Reaction to this, as to most matters on which men have pronounced sentiments, is not necessarily well reasoned, and among some it almost takes the form of a persecution complex. Moreover, our business men have the usual human propensity to rationalize their own interests, pecuniary and otherwise, in terms of the general good. Whether their reactions are well founded or not is not really relevant; that they exist is highly relevant.

Another and the last characteristic I shall mention is a high degree of susceptibility to what I shall call waves of national psychology. There have been times, as in the days of the Oregon Trail, when a spirit of optimism and confidence was in the air, and then there are periods of gloom and defeatism. Business decisions are bound to be affected by them, for the same set of facts may at one time lead a business conference to conclude on the note of "let's roll the dice on this one", or on the other note of "let's wait to see which way the cat jumps."

Now, as I said at the outset of this little thumbnail sketch of the American enterpriser, I make no claim that is scientifically established. Whether it is realistic some of you can judge as well as I. But I think it is clear that business men have a lot of action-controlling attitudes which are not suggested by the profit-maximizing motive, which for simplicity we assume in economic reasoning and which unfortunately has been adopted by some as a realistic basis for inducing economic action. For some purposes, for example, price analysis, the simple assumption of the economic man defended by Senior and others may be adequate—but not so for economic dynamics.

### *Barriers to Expansion*

In order to induce men to stake their funds, or the funds for which they are responsible to others, in an expansion of productive activities, we must provide an environment which is favorable to such ventures. There are within business organizations and in the basic human motives of enterprisers as a class the mainsprings of action. The problem is mainly one of removing barriers rather than one of providing new stimuli. It is thus, as I see it, in the liberal tradition so well stated by Abraham Lincoln in 1864, "to lift artificial weights from all shoulders; to clear the paths of laudable pursuits for all; to afford all an unfettered start."

To lift the artificial weights and to clear the paths of laudable pursuits is going to be a job to tax the statesmanship of a democracy even if we do not assume in a large way the guiding or the stimulating of those pursuits. What some of those weights and obstacles are has been implied, and others can be only briefly suggested here. There are the obstacles imposed by governments upon the flow of trade between states and between countries. There are barriers to full production imposed by groups of various kinds—of farmers, of industrial workers, of retailers and of manufacturers. The tendency of people of virtually all occupations and classes to seek special privileges and particularly special security through group action creates a pervasive network of restrictions upon normal expansionist forces. For the forces of expansion lie mainly in individuals and individual firms and not in groups. And then the barriers that apply particularly to small businesses or to new businesses

require special attention. While much of the expansion which will be needed may come from established firms, there are special values of a political, social and economic nature in new enterprises.

Besides these long-standing and persistent deterrents to expansion, there are some that have recently assumed special importance. Among these our system of business taxes stands high. The taxing power of the government places a necessary limitation upon the freedom of individuals. That is inevitable, but if we rely upon freedom of enterprise, a tax system should be so devised as to avoid so far as possible placing checks upon the normal productive impulses of the people and particularly to avoid direct deterrents to the investment of venture capital and the assumption of business risks. It may be suggested also that the recent tax system does that very thing. (And I am not referring to special wartime taxes, such as those on excess profits.) Particularly through the present and pre-war taxes upon corporations the burden rests most heavily upon that form of income which arises from assuming the risks of business ventures. It does this through levying an income tax, first, upon the earnings of the corporation, and then again upon those same earnings as part of the owner's income. It is as though we taxed the income of a farm and then the income of the farmer. Quite aside from obvious considerations of equity, it seems clear that such a tax is not conducive to investment and risk taking in our most common form of industrial enterprise.

When the federal income tax was introduced, and during its early years, it was so small that its effect upon economic activity could be largely disregarded. But if, as appears likely after the war, we must have an annual federal budget of some \$20 billions, the way in which this burden is to be levied may have profound effects upon expansion and employment. The best excuse for the present system of business taxes is that it was never designed to raise such large sums as will be required in the post-war period.

What is needed is no half-hearted tinkering with the system. We need a bold revision that recognizes and abolishes the anomaly of selecting for double taxation that form of income which flows from the constructive work of initiating and ex-

panding economic activity. There are various ways in which it could be done. These are matters for tax experts, but the acceptance of the principle that taxes must in the nature of things finally be borne by natural persons, and that it is unsound to impose by indirection double taxation on that group whose efforts we should be trying to stimulate, must underlie any effective federal tax reform.

There are, of course, other needed features of tax reform. For one thing, the exemption of income from certain types of bonds provides an unduly attractive alternative to the venturing of funds in expansion. And there is also simplification of the tax structure. What we should aim at, I think, is a situation in which business decisions can be made on the basis of what we used to call normal business considerations and not be subjected to the virtual veto of the tax consultant.

A second obstacle to the functioning of the incentives for expansion is the present state of management-labor relations. I put it in this way advisedly, for at least as a direct and conscious deterrent to expansion it is not so much wage levels as relations with employees that loom large in business men's minds. There are many special aspects of these relations, but most of them seem to be related to a fundamental lack of appreciation for the mutuality of interest of workers and managers as members of the same economic team. Under simpler conditions it was clear enough that the owner-employer and the worker both had an interest in the success of the enterprise. Today, at least in some of our larger enterprises, that recognition seems to be lacking, and the divergence of interests of workers and employers has been exaggerated to a point where too often they constitute the sum of management-worker relations. Even public policy, which in an interdependent society ought to be directed to emphasizing the community of interests and the maintenance of domestic tranquillity, sometimes appears to have been directed to maintaining an opposition of interests expressed in the ideal of arm's-length bargaining of workers and managers.

The crude concept of so many hours for so many dollars contributes to slow-downs, indifference, lack of loyalty. On the one side these add up from the enterpriser's point of view to the unpleasantness of bickering and strife. On the other side it leads to demands, or the uncertain prospects of demands,



for wages that are out of line with market possibilities. There is, indeed, the distributional as well as the productive aspect of business enterprises, and in the division of the proceeds we cannot expect stockholders, bondholders, managers and workers to see eye to eye. Furthermore, for the protection of the community these divergent interests must be maintained. We can afford to have a high degree of harmony between workers and managers of firms if competition is maintained between the firms. But an industry-wide love feast of workers and employers leads easily to cartels—to the raising of wages and costs and prices. What we need, then, for the encouragement of enterprise, is individual firms facing others in competition combined with a greater recognition of the mutuality of interest of members of the productive unit. What I am suggesting is the concept of, say, a professional football team, in which the interest of each member in his own earnings is successfully reconciled with a high degree of loyalty to the team as against all other teams.

The attainment of such a balance of individual and group interests could be advanced by leaders of management and of labor, but that possibility depends largely upon a better general understanding of some simple economic relationships, such as the fundamental relations of production and income and the mutuality of interests of the various participants in production. This obviously places a responsibility upon education, and particularly upon education at the secondary level. There seems reason to believe that the secondary schools have in the past twenty years not contributed to an appreciation of these elementary facts and values in proportion to their potentialities. Too often they have laid the basis for mutual suspicion and class warfare and they have, furthermore, left a fertile ground for various schemes comparable in the field of economics to the perennial inventions of perpetual motion in the field of physics. Education of this basic kind and at different levels is essential if intelligent leadership of labor is to have its opportunity. We have in monetary theory Gresham's Law, to the effect that bad money drives out good money. A similar proposition holds here—that, given an ignorant electorate, bad leaders drive out good leaders. It is a proposition that holds equally for labor leadership as it does for political leadership.

Another requirement lies in our faith in the future. The susceptibility of business men to national psychology has been mentioned. A corollary of that is the need to recognize and keep before our eyes the great possibilities which this country has. In the pre-war decade, the atmosphere was for the most part one of gloom and doubt. In large part this was a reflection of existing conditions, but in part it was encouraged by the popular versions of the mature-economy theory. Without imputing purposes to the proponents of this doctrine, it can fairly be said that the popular version of it was a depressing one and certainly so for enterprisers. At the same time, on the political front, enterprisers saw, or thought they saw (which is equally serious), a trend toward collectivism, which gave rise to doubts about the future of our economic institutions. Maybe they were wrong, but there were few in places of authority to reassure them.

The opportunities for investors and enterprisers, given a reasonably good institutional environment, are bright. The advance of fundamental science is a cumulative thing—each advance paving the way for greater advances. Industrial research, too, is merely on the threshold of its possibilities. In the development of this type of research in particular, we have made the greatest of all discoveries, for we have found how to make discoveries. No one, of course, can meet the challenge to specify the future industries that will be the counterpart of the automobile industry—neither could anyone in 1887 meet the challenging and oft-quoted statements of David A. Wells and Carrol Wright that the great opportunities for expanding plant and equipment were past. Such a person could not, nor could they, see the development of electrical power and of the automobile. And remember that these prophets of gloom also went wrong in failing to see the great development of industries like the railroads and the telephone, which were then known. Are we not more likely to be right if we base our forecasts on such general forces as the advance of science and of education and the energies and imagination of a creative people than if we take the so-called hard-headed attitude of believing only what we can see? The future is very largely in our own hands; there are no inevitable or inexorable reasons why it should not be good.

I am aware that there are those who deny that such intangible considerations as faith in the future of the country have anything to do with investment. I have yet to find a business man who agrees. Investment must, it would seem, be based upon future prospects, and decisions are bound to be influenced both irrationally by the pervading spirit of the times and rationally by the evidences of the future.

### *Conclusion*

A conclusion which I hope will be suggested by these remarks is that economics in action is a matter of flesh-and-blood people doing things. And if one accepts the proposition that individuals are endowed to any degree with freedom of choice, that means that there is no inevitability about the results. The spirit of man, his beliefs and his prejudices, his hopes and his fears, are often decisive elements. The problem of stimulating industry in a free country is, therefore, not a mechanistic one. You cannot, as on an elaborate calculating machine, set up a specified interest rate, wage rates, a tax formula, add a measured amount of purchasing power, and then turn a crank and get a predictable amount of expansion. Nor will still greater advances in economic science enable you to do so. What you will get, in a free enterprise system, depends to a considerable extent on how John Q. Business Man views the whole procedure.

The mainsprings of action, required for normal health and growth of our economy, reside in the motives, impulses and desires of men. They are too involved and subtle to be subjected to specific controls. A recognition of this complexity may give us in our attempts to plan for post-war employment a sense of humility and may lead us to the conclusion that, after all, freedom is the essential element of free enterprise.

### REMARKS BY THE CHAIRMAN

CHAIRMAN JAY: On your behalf, I should like to thank Dean Griffin for his interesting talk, and to note with pleasure that along toward the latter part of it several notes of optimism were to be found.

Now we are going to have the pleasure of hearing about "Problems of Wage Policy after the War", from Dr. Sumner H. Slichter, Lamont University Professor of Harvard University, whom I am glad to present to you.

## PROBLEMS OF WAGE POLICY AFTER THE WAR

SUMNER H. SLICHTER

Lamont University Professor, Harvard University

### I

**W**HAT problems of wages and hours will confront the nation after the war, and what should be done about them? Should wages and working hours be permitted to move freely in response to whatever market influences exist, or should the nation have a wage policy and an hour policy which would limit their movements? If the latter, what should the policy be, how should it be related to price policy, how should it be made, and how should it be implemented? Should the present War Labor Board be kept, and, if so, what mandate and authority should it have? Attempts to reach conclusions about these questions should take account of five principal possibilities:

1. that the wage level after the war will be too high in relation to the price level for a satisfactory level of employment;
2. that the wage level will be so low in relation to the price level that the demand for labor exceeds the supply;
3. that the wage structure will be badly distorted in relation to the patterns of labor demand and labor supply after the war;
4. that the country will be confronted with the danger of severe deflation after the war;
5. that the country will be confronted with the danger of severe inflation after the war.

### II

The controls of wages and the controls of prices have operated more or less independently. Hence one should not be surprised to find labor costs after the war substantially higher or lower in relation to prices than before the war. It is ex-

tremely difficult to judge whether labor costs on the whole have risen or fallen in relation to prices. The best measure of the price of labor is straight-time hourly earnings, corrected for shifts between low-paying and high-paying industries. In 35 industries—20 manufacturing and 15 nonmanufacturing—covering about 60 per cent of the civilian employees of the country, straight-time hourly earnings (corrected for shifts) have risen about 30 per cent, from 64.2 cents in 1939 to 83.3 cents in January 1944. In the same period the wholesale prices of finished goods rose about 25 per cent; raw materials, about 60 per cent; farm products, about 87 per cent. Corporate profits after taxes are low in relation to the volume of business done. In 1943, they were 50 per cent above 1926, although corporate sales were about double the sales of 1926. Corporate profits *before* taxes, however, were considerably higher per dollar of sales in 1943 than in the twenties.<sup>1</sup> Hence substantial reductions in corporate income taxes after the war might make present cost-price relationships yield quite a satisfactory return.<sup>2</sup> Furthermore, labor costs are abnormally high, because of the large proportion of "green" workers, of high labor turnover and absenteeism, and of large payments for penalty overtime. In 1943, for example, the wage bill for penalty overtime was \$3 billion. Finally, half of the output of American industry is sold to the government at prices not reflected in the price indexes.<sup>3</sup> All of these abnormalities make it impossible to judge whether costs would warrant a drop or compel a rise in prices after the war. All in all, however, it looks as if the war has not greatly disturbed the relationship be-

<sup>1</sup> Profits *after* taxes were about 4 cents per dollar of sales in 1943. In 1926 they were 6.4 cents per dollar of sales, and in 1929, 6.1 cents. In 1943, profits *before* taxes were 11.1 cents per dollar of sales. In 1926 they were 7.8 cents and in 1929, 7.1 cents.

<sup>2</sup> Allowance must be made for the fact, however, that the reduction of the corporate income taxes would have widely varying effects on different industries and different enterprises.

<sup>3</sup> It might be mentioned in addition that the prices of some raw materials which are generally high in relation to other prices are not fully reflected in operating costs because much fabrication is done from materials owned by the government.



tween labor costs and the prices at which finished goods are being sold.<sup>4</sup>

Suppose it turns out that wages in most industries are too high relative to prices to make full employment possible. Should the nation adopt the public policy of reducing wages or should it adopt the policy of raising prices? The practical obstacles to reducing wages on a broad scale are obvious and formidable. Furthermore, the immediate effects of wage reductions upon the volume of spending need not be favorable, or, if favorable, then they may be favorable only in slight degree.<sup>5</sup> These observations lead to the tentative conclusion that if wartime controls leave wages too high in relation to prices, public policy should aim in the main to raise prices rather than to reduce wages. This conclusion, however, requires important qualifications. The price level might be too low relative to wages, but too high relative to foreign price levels—as was the case in Britain during the twenties. Furthermore, the accomplishment of a satisfactory wage-price relationship through a rise in prices faces two opposite types of difficulties. On the one hand, wages which are too high relative to prices would under most circumstances reduce the response of the economy to stimulants.<sup>6</sup> On the other hand, if the war has built up large quantities of liquid assets in the hands of individuals and business concerns, it may be difficult to raise prices without touching off a disorderly and uncontrollable rise.

What if wages after the war are "too low" relative to prices, too low in the sense that the quantity of labor demanded ex-

<sup>4</sup> This statement does not apply to some of the ceilings on goods which are not being made.

<sup>5</sup> Even if the volume of employment that could profitably be given is enlarged, the immediate effect of wage reductions may be to increase liquidity preference. Although the schedule of liquidity preference appears to change with shifts in cost-price relationships, immediate shifts are likely to be the opposite of the ultimate ones. Thus, a reduction in costs relative to prices may immediately produce an increase in liquidity preference (due to the anticipation of some drop in prices), but may ultimately produce a drop in liquidity preference due to more favorable cost-price relationships.

<sup>6</sup> To put the matter somewhat differently, other things being equal, the instruments of stimulation (tax reduction, deficits) work best when they are not needed, that is, when costs are low relative to prices.

ceeds the available supply of labor?<sup>7</sup> Should the desired relationship between wages and prices be created by raising wages, by lowering prices, or by doing both? The answer to this question must depend upon circumstances. Again the relationship of the domestic price level to foreign price levels must be taken into account. So also must the possibility that general increases in wages would encourage a large-scale conversion of liquid assets into goods and thus precipitate a disorderly rise of prices and an ultimate collapse.

### III

A great upheaval such as the war may be expected to produce large changes in the wage structure, in the wage differentials between regions, cities, plants, occupations, industries. The war has done this—considerably more than the published figures reveal but considerably less, I believe, than one might expect.<sup>8</sup> The following is a brief summary of the principal changes:

1. *Between regions.* Changes between regions appear to have been small. The wage level on the Pacific Coast, higher than the rest of the country before the war, appears on the

<sup>7</sup> Some people may regard wages as "too low" because not a large enough share of the national income goes to labor. This assumes that an increase in wages relative to prices would increase labor's share—a result which is highly probable, but not inevitable. Under most circumstances, however, the increase in labor's share would be accomplished at the cost of a drop in the volume of employment and probably of payrolls. Hence one may be compelled to compromise between the size of national income that one desires and the distribution of income that one desires.

<sup>8</sup> A word should be said about the difficulty of measuring changes in the price of labor. Most of the evidence is in the form of hourly earnings. When the effect of penalty overtime is eliminated, hourly earnings are usually a fairly satisfactory measure of the price of labor. In a substantial minority of cases, however, straight-time hourly earnings are not a satisfactory measure. Among timeworkers, for example, there are many cases where hourly earnings have increased less than wage rates because many new workers are receiving beginners' rates or rates close to the bottom of the scale. One should bear in mind that during the last three years the working force itself has expanded by about 9 million, and that, in addition, many people have shifted from occupations in which they have had experience to occupations in which they have not. In addition, there are an increasing number of cases in which incentive systems have replaced time work. In these cases earnings have often risen while the price of labor has dropped.

whole to have increased slightly relative to the rest of the country except the South. Wages in the South appear to have risen relative to the North and East.<sup>9</sup>

<sup>9</sup> In the upholstery furniture industry straight-time hourly earnings increased, between January 1941 and the summer of 1943, 20 per cent on the Pacific Coast, and 12 per cent for the nation; in the wood household furniture industry, 21 per cent on the Pacific Coast, and 12 per cent for the nation. The wages of common labor in road building increased in the Pacific Coast states from 65 cents per hour in 1939 to \$1.07 per hour in January 1944, or 64.6 per cent, in comparison with an increase from 42 cents to 68 cents, or 60 per cent, for the country as a whole. *Survey of Current Business*, 1942 Supplement, p. 58, and March 1944, p. S-15. The entrance rates of common labor appear to have increased on the Pacific Coast more than in other parts of the country except the South. The U. S. Bureau of Labor Statistics has collected figures on the average hourly entrance rates of male common labor in 1939, and again in the summer of 1943. The two surveys are not strictly comparable because they do not relate to the same plants or industries and because the second is confined to cities of 100,000 or over. The 1939 survey covered 6,448 establishments; the survey of 1943, 9,740 establishments. The following is a result of the two surveys by regions:

ENTRANCE RATES (IN CENTS) OF MALE COMMON LABOR

	1939	Spring- Summer 1943	Absolute Increase	Percentage Increase
United States .....	49.9	70.7	20.8	41.7
Pacific .....	59.6	81.7	22.1	37.1
East North Central ...	56.7	74.0	17.3	30.5
Middle Atlantic .....	54.4	69.8	15.4	28.3
West North Central, incl. Mountain .....	54.1	61.9	7.8	14.4
New England .....	50.7	64.7	14.0	27.6
Southwest .....	36.0	57.2	21.2	58.9
Southeast .....	32.3	53.0	20.7	64.1

Figures collected by the U. S. Bureau of Labor Statistics, some published and some unpublished, indicate that the wages of common labor in manufacturing, building construction, and public utilities have advanced faster in the South than in other parts of the country. The following comparisons show the percentage increase from year to year:

PERCENTAGE RISE IN ENTRANCE RATES OF MALE COMMON LABOR

	United States	South and Southwest	North and Northwest
July 1940-July 1941 .....	12.9	11.5	11.9
July 1941-July 1942 .....	11.9	16.7	11.1
July 1942-July 1943 .....	6.7	12.7	6.4

2. *Between small towns and large cities.* Satisfactory evidence is lacking, but there has apparently been little relative change in hourly earnings between small towns and large places. Wages of farm labor rose about 120 per cent between July 1939 and January 1944. This leads one to expect a fairly substantial rise in wages in many small towns. Men who are well informed on trends in the labor market believe that, in the early days of the war effort, wages in the large cities rose faster than wages in the small towns, but that during the last year or year and a half the small towns have been catching up. The use of fairly broad areas in applying brackets by the Regional War Labor Boards has tended to raise rates in small towns more than in large cities. This is true, for example, in the New England metal trades. In the automotive parts industry of the Middle West, small towns of under 25,000 in Michigan have been brought closer to Detroit, which, in June 1939, had the highest straight-time hourly earnings.<sup>10</sup> A

The percentages for each period of twelve months apply to identical establishments, and constant weights were used to eliminate the effect of movement from low-paying to high-paying plants or industries.

The cotton textile industry, the largest manufacturing industry in the South, shows very little change relative to the North between September 1939 and January 1944. In the North, straight-time hourly earnings rose from 43.8 cents per hour in September 1939 to 67.4 cents in January 1944, or 53.9 per cent; in the South, from 35.8 cents in September 1939 to 55.7 cents in January 1944, or 55.6 per cent. This is an instance in which straight-time hourly earnings are a poor measure of changes in the price of labor. The figures on employment indicate that the proportion of new workers is far greater in the South than in the North.

There are important exceptions to the general rule that the price of labor has risen more on the Pacific Coast and in the South than in other parts of the country. The airplane industry may be such an exception. The increase in California was 24.9 per cent; in the South Central states, 25.9 per cent; in the Eastern states, 26.1 per cent; and in the Southwestern states, 20.5 per cent. U. S. Bureau of Labor Statistics, *Earnings in Aircraft Parts Plants*, Bulletin No. 744, p. 8.

<sup>10</sup> This is not true of the towns over 25,000. Their position relative to Detroit is about the same. Chicago has been brought closer to Detroit. Cleveland, which was below Detroit in 1939, has gone ahead of Detroit and now appears to be the peak community in the industry, but the new peak is not as much above the top of the industry as was the old one.

Comparisons of straight-time hourly earnings in manufacturing in twenty-five towns in Wisconsin made by the Wisconsin Industrial Commission show

special study recently made by the United States Bureau of Labor Statistics for presentation to a committee of Congress shows that the median rise in straight-time hourly earnings of white-collar workers in twelve nonwar towns of 20,000 or less in widely scattered states between January 1941 and December 1943 was about 20 per cent.<sup>11</sup> The rise from 1939 to the end of 1943 would undoubtedly have been somewhat greater.

3. *Between common labor, semiskilled and skilled labor.* Common labor is generally believed to have gained greater percentage increases, but smaller absolute increases than skilled labor. Satisfactory data, however, are lacking, and the safest conclusion is probably that there has been little change in relationships.<sup>12</sup>

no relationship between the size of town and the percentage wage increase—although the change in straight-time hourly earnings varied (partly because of changes in industries) from minus 0.7 per cent to plus 60.1 per cent.

<sup>11</sup> The median increase in various occupations was as follows:

MEDIAN RISE IN STRAIGHT-TIME AVERAGE HOURLY EARNINGS, JANUARY 1941-  
DECEMBER 1943 IN TWELVE NONWAR TOWNS UNDER 20,000 POPULATION

	Per Cent
Department and Clothing Stores: Retail .....	20.8
Banks: Paying and Receiving Tellers .....	8.6
Limited Price Variety Stores: Clerks .....	25.4
Public Utilities: Meter Readers (11 towns) .....	17.3
All Industries: Stenographers .....	23.1
All Industries: General Clerks .....	20.1

The rise in the wage scale was undoubtedly somewhat more than the rise in straight-time hourly earnings because in all of these occupations a good many persons have been hired at beginners' rates.

<sup>12</sup> U. S. Bureau of Labor Statistics reports the following percentage increases in the straight-time hourly earnings of all factory workers in identical establishments and the entrance rates of common labor:

	All Factory Workers	Common Labor
July 1940-July 1941 .....	7.3	13.6
July 1941-July 1942 .....	10.2	11.6
July 1942-July 1943 .....	8.4	4.5

As the establishments to which the common labor rates apply are not the same as those to which the figures on hourly earnings apply, the comparison is only a rough indication of trends.

The reports of the National Industrial Conference Board show a slight drop in straight-time hourly earnings of male common labor in factories relative



4. *Pieceworkers in comparison with timeworkers.* This is one of the most important changes of all. In many plants the earnings of pieceworkers are from one-fourth to one-half above the earnings of timeworkers who previously received the same amount. Some pieceworkers are earning three or four times as much as timeworkers who were formerly their equals. The earnings of pieceworkers have risen partly because runs of work are abnormally long and change-overs less frequent than usual but in the main because offsetting changes in rates have not been made as working conditions have improved.<sup>13</sup>

5. *Union wages in comparison with nonunion.* Information on this point is lacking. In the first World War nonunion wages went up faster than union wages. This proved to be an important advantage to many unions after the war, because they were able to obtain increases when nonunion workers were accepting reductions. It is probable that there is little difference in the rise between the two groups of wages since 1939.

6. *In relation to employment increases.* When industries with large increases in employment are compared with industries with small increases in employment, no differences in the behavior of wages appear.<sup>14</sup> It is likely, however, that a different result would follow if the comparisons were between cities with large increases in employment and cities with small increases in employment. Among twenty-five cities in Wis-

to straight-time hourly earnings of semiskilled and skilled factory workers. In 1939, straight-time hourly earnings of male common laborers were 73.0 per cent of straight-time hourly earnings of semiskilled and skilled workers; in December 1943, 72.5 per cent. This is not a significant difference. Furthermore, the sample is defective because it is confined in the main to large plants which had high common labor rates to begin with. Consequently, it does not reflect the recent tendency of the Labor Board to impose a minimum rate of 50 cents an hour. Furthermore, combining the earnings of semiskilled and skilled workers produces an ambiguous result because it is probable that earnings of semiskilled workers have increased much more than earnings of skilled workers.

<sup>13</sup> The same case for "renegotiation" exists in the case of many piece rates as in the case of war contracts.

<sup>14</sup> When thirty-five industries are classified according to whether the straight-time hourly earnings rose, fell, or showed little change in comparison with the average for all thirty-five (weighted according to employment in 1939), instances of large increases in employment and of decreases in employment are found in all three groups, as indicated in the following table:

consin for which the Industrial Commission has gathered information, the largest percentage increases in straight-time hourly earnings (unfortunately not corrected for shifts between industries) are generally associated with the largest percentage increases in employment, but exceptions are numerous.

7. *Between industries.* Among thirty-four industries (twenty manufacturing and fourteen nonmanufacturing) the increase in straight-time hourly earnings between 1939 and January 1944 varied from 14.1 per cent in street railways to 54.9 per cent in lumber and timber.<sup>15</sup> In absolute terms the increase in straight-time hourly earnings ranged from 10.1 cents in street railways to 36.8 cents in the manufacture of transportation equipment (except automobiles). The rise in straight-time hourly earnings was below 15 cents an hour in five cases and above 25 cents in four cases. In percentages it was below 20 per cent in three cases and above 40 per cent in eight cases. Since war production is concentrated largely (although not entirely) in the durable goods' industries, one might expect that the rise in wages would be greater in those industries than in the nondurable goods' industries, and this is true. The difference, however, is surprisingly small. In the durable goods' industries wages rose 38.5 per cent between 1939 and January 1944, and in the nondurable, 36.7 per cent. In gen-

	Total	Number with increase in employment of over			Number with decrease in employment
		50%	15-50%	0-15%	
Industries with relative rise in straight-time hourly earnings ....	13	4	0	5	4
Industries with relative fall in straight-time hourly earnings ....	8	0	4	1	3
Industries with little relative change .....	14	5	2	4	3

<sup>15</sup> In the above comparisons one industry group for which data are available, namely, telephone and telegraph, has been excluded because the hourly earnings in the telephone industry (representing about 70 per cent of the employees) greatly understate the change in wage rates in the industry. This is partly because of the change in the composition of the working force—a shrinkage in male personnel in construction and maintenance and a rise in the number of women workers, and also a considerable rise in the number of new employees receiving beginners' rates or close to beginners' rates.

eral, the war has produced the largest absolute increases in industries where wages were high before the war and the smallest absolute increases in industries where wages were lowest before the war.<sup>16</sup>

<sup>16</sup> If one divides thirty-five industries (including telephone and telegraph) into seven groups, one finds that the average increase in straight-time hourly earnings was 25.3 cents in the five industries which stood highest in 1939, and 18.4 cents in the five industries which stood lowest in 1939. The percentage increases, however, were lowest in the industries which were high in 1939, and highest in the industries which were lowest in 1939. Thus, the percentage increase in straight-time hourly earnings was 27.8 per cent in the top group and 42.5 per cent in the lowest group.

As is to be expected, these varying absolute and relative increases have altered the relationship of wages in different industries to the general wage level. The best way to indicate these changes is to compute a weighted average of straight-time hourly earnings and to compare straight-time hourly earnings in each industry with the weighted average. Since we are concerned with how well the wage structure which will be a legacy of the war fits the pattern of demand after the war, it is best to compute the weighted average by using 1939 weights. This involves the assumption that the post-war pattern of demand will be more like that of 1939 than it will be like that of 1944. These comparisons indicate that thirteen of the thirty-five industries have had a relative rise in their straight-time hourly earnings, eight a relative fall, and fourteen little change. Unless the index showing the relation of hourly earnings in the industry to the general average moved by at least 5 per cent, the industry was classified as showing little relative change.

The following classification shows in which industries straight-time hourly earnings rose, fell, or remained little changed in relation to the general average. Figures in the two columns indicate percentage of straight-time hourly earnings to the general average both in 1939 and in January 1944:

<i>Relative Rise</i>	1939	January 1944
Transportation (except automobiles) .....	120.7	137.2
Lumber and timber basic products .....	74.6	89.1
Leather and leather products .....	80.7	90.2
Furniture and finished lumber products .....	79.1	89.7
Textile mill products and other fiber manufactures .....	70.1	78.5
Apparel and other finished textile products ....	80.5	89.9
Nonferrous metals and their products .....	105.5	114.6
Miscellaneous industries .....	95.6	103.1
Quarrying and nonmetallic mining .....	85.7	92.9
Chemicals and allied products .....	99.5	104.8
Building construction .....	145.2	152.7
Tobacco manufactures .....	72.6	77.8
Hotels (year-round) .....	50.5	54.3

8. *Between high-wage and low-wage plants and companies within the same industry.* Information is again scanty and inadequate, but the largest *percentage* increases appear to have

<i>Relative Fall</i>	1939	January 1944
Telephone and telegraph .....	124.6	99.8 *
Railroads, Class I steam .....	113.7	98.8
Street railways and buses .....	111.2	81.5
Printing, publishing, and allied industries ....	133.3	120.8
Electric light and power .....	135.4	125.5
Coal mining (anthracite) .....	143.8	137.1
Petroleum and coal products .....	137.7	129.6
Crude-petroleum production .....	136.0	130.6

<i>Little Relative Change</i>		
Power laundries .....	65.0	67.0
Dyeing and cleaning .....	76.3	78.6
Trade, retail .....	83.2	79.2
Paper and allied products .....	90.7	92.1
Food .....	93.0	93.4
Stone, clay, and glass products .....	97.7	101.1
Electrical machinery .....	107.8	110.9
Metal mining .....	109.8	112.0
Trade, wholesale .....	111.3	111.2
Iron and steel and their products .....	113.6	118.2
Machinery (except electrical) .....	114.6	119.4
Rubber products .....	115.9	118.7
Coal mining (bituminous) .....	138.0	135.5
Automobiles .....	143.1	139.7

\* October 1943.

The principal characteristic of the industries which improved their position is the fact that straight-time earnings were below the average in 1939. This was true of nine of the thirteen industries which gained in relation to the general average. Furthermore, of the fifteen industries which were below the general average in 1939, nine of them gained and six showed relatively little change. Of the eight industries which lost relative to the general average, all of them were above the general average in 1939, and five of the eight were more than 25 per cent above the general average. Included in the group which lost are four industries in which prices are publicly regulated—telephone and telegraph, railroads, street railways, and electric light and power.

It is believed that these figures give a rough, but fairly reliable, picture of the general changes that have occurred between industries. Nevertheless, the figures have serious defects which make it unwise to use the figures pertaining to any particular industry without special inquiry to determine their reliability. The telephone industry, referred to in the preceding footnote, is an extreme example of an industry in which straight-time hourly earnings

occurred among the low-wage plants. Whether the largest *absolute* increases have occurred in the small plants is doubtful.<sup>17</sup>

All of these comparisons seem to indicate that the war has produced relatively small effects upon the wage structure. Nevertheless, the effects have been far greater than the comparisons indicate. The reason is that comparisons of changes between regions, large and small cities, different plants and industries, group together plants and occupations with large increases and plants and occupations with small increases. If one could segregate the particular plants where the changes have been greatest and those in which they have been smallest, one would find that the spread is very considerable. Are these various changes in wage relationships produced by the war to be regarded as increasing or reducing distortions in the wage structure?

A distortion may be defined as a relationship between wage rates which is not justified by the pattern of the demand for labor and the supply of labor and which, therefore, attaches an

fail accurately to reflect changes in wage rates because of changes in the number of persons in different occupational groups, in the relative number of new and old employees, and in the relative number of men and women.

<sup>17</sup> Consequently, it is likely that wage increases occurred later in the small plants than in the large ones. The use of brackets by the War Labor Board has tended on the whole to raise small plants relative to large ones. A good picture of the effect of the change in the wage structure of an industry can be derived by classifying the street railway and bus lines of New England into groups in accordance with the top rates paid early in the war showing the subsequent absolute and per cent increases. Each group in the following table contains five cities except the ninth which contains four.

	Average Top Hourly Rate December 1941	Average Absolute Increase up to Oct. 31, 1943	Average Percentage Increase
I .....	48.6 cents	27.2 cents	70.4
II .....	49.2	22.2	45.2
III .....	54.3	18.7	35.0
IV .....	58.4	18.9	31.7
V .....	61.8	16.8	27.1
VI .....	65.0	19.4	30.5
VII .....	68.3	20.9	31.2
VIII .....	73.2	21.6	29.7
IX .....	79.9 *	51.1 *	19.1 *

\* Four cities



excessive number of men to a plant, industry, or locality or which causes a persistent number of vacant jobs. Consequently, whether distortions are increasing or decreasing will depend not only upon what the war does to wages, but also upon what it does to the pattern of the demand for labor and to the supply of labor. The war is giving men new skills, it is changing the geographical distribution of labor, and it is altering the preferences of men concerning the occupations and places in which they work. It may well be that the net effect of the war will be to reduce distortions in the wage structure.<sup>18</sup> Nevertheless, some more or less serious distortions are to be expected. Among them are:

1. *Between the Pacific Coast and the rest of the country.* The war will increase the proportion of people who would like to live on the Coast. Consequently, other things being equal, wages on the Coast should be lower relative to wages in the rest of the country than they were in 1939. The war, however, has tended to raise wages on the Coast more than in the country as a whole.

2. *Between cities.* A few war centers will have virtually priced themselves out of competition. Seattle, for example, may have trouble in getting wages down to a competitive level.

3. *Between pieceworkers and timeworkers.* Much of the advantage of pieceworkers will disappear, because many rates which now yield high earnings will not be used after war goods are no longer made, and because the smaller lots in which civilian goods are made will require more frequent job changes. Pieceworkers are attempting in some plants to get peacetime rates adjusted to yield wartime earnings. To the extent that this happens it is likely to perpetuate distortions.

4. *Between the metal trades and heavy industries and other trades and industries.* The war will increase the proportion of workers who are skilled in the metal trades and in the heavy

<sup>18</sup> Before the war the differences between agricultural wages and wages in the small towns, on the one hand, and wages in the large cities, on the other, appeared to be too large, because they attracted more men to the cities than could be employed there at the prevailing rates. If the war reduces differentials between the country and the cities, it may reduce or remove an important distortion in the wage structure—particularly if it also produces market changes which increase the relative demand for nonagricultural labor.

industries and who would like to continue to make their living in these occupations and industries. Other things being equal, therefore, wages in the metal trades and heavy industries should be lower relative to wages in general after the war than they were before the war. But the war will bequeath to the country relatively high wages in a considerable part of the metal trades.

5. *Between individual plants.* A few plants in each industry are likely to have priced themselves pretty largely out of competition. These plants may not be particularly numerous, but possibly nearly 5 per cent of the manufacturing population may be employed in them. Machine tool plants or airplane plants which wish to keep operating by taking subcontracts for electrical equipment or automotive parts may find the employment which they are able to give greatly limited by their wage scales.

Should the community do nothing about distortions or should it seek to remove them? Failure to remove them would mean some maldistribution of resources and some unemployment—"wage distortion unemployment", it might be called. The aftermath of the last war provides many examples of costly wage distortion unemployment. The history of the Chicago men's clothing industry and the history of the bituminous coal industry are well-known and conspicuous illustrations, but many others might be cited.<sup>19</sup>

<sup>19</sup> Employment in the Chicago men's clothing industry dropped from 29,220 in 1921 to 17,706 in 1929. U. S. Bureau of Labor Statistics, *Wages and Hours of Labor in the Men's Clothing Industry, 1911-1924*, Bulletin No. 387, p. 23; and *Wages and Hours of Labor in the Men's Clothing Industry, 1932*, Bulletin No. 594, p. 17. The union part of the coal industry held fast to union rates while in the depression of 1921 nonunion rates were reduced so that they were from 30 to 50 per cent below the union scale. Although the output of bituminous coal in the country dropped 6 per cent between 1920 and 1929, the production of the nonunion states of West Virginia and Kentucky expanded by 50 per cent between 1920 and 1929. The production of the four predominantly union states (Illinois, Indiana, Ohio and Pennsylvania) dropped from 334,562,000 tons in 1920 to 246,207,000 tons in 1929. Essentially the same story was repeated in the men's shoe industry (with cities of Massachusetts losing to the Middle Western small towns), in the tapestry carpet industry, upholstery weaving, and other industries. In Great Britain also, some of the industries which had raised wages most of all during the war suffered because of their inability to adjust

Distortions may be reduced either by cutting the wages which are high or by raising the wages which are low. Each method is likely to be used. Everyone will agree, I believe, that much less conflict and bitterness will be engendered by raising wages which are low than by reducing wages which are high. Removing distortions by raising low wages, however, would require considerable increases in the general wage level, probably by as much as 15 to 25 per cent and possibly even more, because widespread wage increases might cause some rise even in the peak rates. This would require some rise in the price level. There are, of course, some places where large increases in prices would not be necessary, but they are likely to be few. The reduction in war taxes on business might save enterprises about \$8 billion a year. This might on the face of it seem to allow a rise of about 10 per cent in the wage level without an increase in prices. The distribution of war profits and war business taxes has been very uneven. Both profits before taxes and tax payments have been concentrated in a few war plants and industries—many of them plants and industries in which the price of labor has risen more than the average. Hence, offsetting the drop in taxes by increases in wages would aggravate distortions in the wage structure rather than remove them. In some industries technological progress may make possible wage adjustments which will improve the balance in the wage structure and yet will not compel increases in prices, but these opportunities will be limited.

Would it be worth while to incur a rise in perhaps four-fifths or more of all wage rates and in most nonagricultural prices in order to remove distortions affecting the wages of probably not more than one-fifth of the work force—distortions which would not produce more than a million unemployed and probably not that many? Of course, a rise in wages and prices would have to be spread over a period of roughly three to five years, or it would touch off speculative buying and eventual collapse. Many persons—perhaps most persons—would find this method of removing wage distortions objectionable. Suppose, however, that a rise in prices occurs anyway or that it is desirable themselves to the post-war price level. Other cases are discussed by Miss Gladys Palmer in her excellent book, *Union Tactics and Economic Change* (Philadelphia, 1932).

on other grounds, such as to improve the country's international economic position by making it easier for other nations to earn dollars.<sup>20</sup> Should a general rise in prices occur after the war, it would afford an opportunity to reduce distortions in the wage structure and this opportunity should not be missed.

#### IV

In connection with the problem of distortions in the wage structure it is appropriate to discuss the proposal that wage rates after the war be increased in order to offset reductions in weekly working hours. One reason why the war has created so few distortions in the wage structure is that the Labor Board has wisely refused to deny wage increases on the ground that weekly earnings in the particular plant have gone up.<sup>21</sup> Were wage rates in various plants now raised to maintain weekly

<sup>20</sup> For twenty years before the war the price level of the United States was too low in relation to most other price levels. As a result, it was too difficult for most countries to earn dollar exchange. The United States persistently had an excess of exports on merchandise account. A higher price level here relative to the rest of the world would be both in our interest and in the interest of other countries. It would make it easier for the world to sell us raw materials which, in turn, would make it easier for the world to buy our manufactured products. It would help the United States accomplish a shift of employment from those branches of agriculture where the productivity of labor is relatively low to branches of manufacturing where the productivity of labor is relatively high. Thus it would improve the distribution of labor within the United States. Furthermore, it would do more than anything else to help the United States improve its political relations with other parts of the world.

In the years immediately before the war the United States obtained considerably less than one-twentieth of its standard of living by trading with the rest of the world. Suppose that after the war the United States were to acquire one-tenth or even one-seventh of its standard of living by trading with the rest of the world. We should probably be importing \$6 billion or more of raw materials a year and our exports of manufactured goods, made possible largely by our imports of raw materials, would be roughly \$7 billion a year compared with \$2 billion before the war. Since it is in manufacturing as a rule that labor here is most productive, the advantages of this shift are plain.

<sup>21</sup> Editorial comment on the decisions of the Labor Board in most leading journals has missed this point. The public does not realize that in different departments in the same plant there may be wide differences in weekly working hours. One department may be working 40 hours a week or even less, and other departments 52 hours or 56 hours.

earnings, the distortions which have thus far been excluded from the wage structure would be introduced with a vengeance. Plant by plant figures are not available, but the discrepancies which would be introduced may be illustrated by comparisons between industries. Suppose, for example, rates were increased to maintain present weekly earnings under a 40-hour week. In four industries (apparel, anthracite coal, retail trade, and building construction) no upward adjustment would, on the average, be required. In the machinery industry, however, the average rise would be 37.6 cents per hour, or 37.8 per cent; in the street railway industry, 33.5 cents, or 41.0 per cent; in transportation (except automobiles), 30.5 cents, or 26.7 per cent. The median rise required would be 12.8 cents, or 16.4 per cent.<sup>22</sup> In many instances the greatest increases would go to the plants or industries which have already had the greatest advances.

## V

Are wage controls needed to protect the country against deflation? Many people fear that the drop in federal expenditures from over \$90 billion to \$25 billion a year within the space of several years after the war may precipitate severe deflation and unemployment. What wage policy is indicated by this danger? Would it help to prevent deflation to give assurances that the general level of wages would remain unchanged? If a precipitous fall in prices started, would it help to arrest that fall to hold wages unchanged or to reduce them as prices dropped? The answer to these questions depends upon circumstances. If cost-price relationships were unfavorable or if the country's price level was too high relative to the price levels of other countries, assurances against wage reductions might sim-

<sup>22</sup> In 11 out of 34 industries an increase of over 20 cents an hour would be required; in 9 an increase of 10 to 20 cents; in 10 an increase of less than 10 cents; and in 4, no increase at all. In 7, the percentage increase would be over 25; in 7, between 20 and 25; in 5, between 15 and 20; in 5, between 10 and 15; in 6, less than 10. These industries include all of those listed in footnote 16, with the exception of railroads. The working time of many railroad workers in transportation service is indefinite (and often only three or four hours a day). Hence, it is not practicable to measure the over-all changes that would be necessary to adjust railroad wages to a 40-hour week.



ply aggravate the contraction of employment.<sup>23</sup> Were a precipitous fall in prices to occur, recovery of employment might be helped by fairly widespread reductions in wages, particularly if reductions were made in high-cost plants and if they were made after raw materials had fallen too far and were rising. The combination of rising raw material prices and falling wages seems to be favorable to a reduction in liquidity preference.<sup>24</sup> There appears to be little likelihood, however, that the country will face the problem of severe deflation or that it will be confronted with the necessity of reducing its price level relative to the price levels of other countries.

Of more practical importance is the question of whether the price of labor should be increased after the war to prevent a drop in payrolls. If wages remain substantially unchanged, the transition to a peacetime economy will see a drop in payrolls of \$15 billion to \$20 billion.<sup>25</sup> Would such a drop in payrolls be seriously deflationary and, if so, would it be help-

<sup>23</sup> In other words, *price* deflation might be halted and *other forms* of deflation, particularly contraction of employment, might be reinforced.

<sup>24</sup> The vigorous recovery of 1922 occurred with prices of raw materials rising and with wages for many months falling. During the early stages of the recovery the prices of finished goods were also falling.

<sup>25</sup> It is not possible to estimate accurately the drop in payrolls on the assumption that the price of labor remains unchanged. Shrinkage of the armed services from approximately 11 million to 2.5 million will produce a drop in payrolls of roughly \$8.5 billion. This will be partially offset by a rise in civilian employment. In 1943, civilian employment averaged 52.5 million. No one knows what it will be after the period of transition, but it is likely to be in the neighborhood of 56 million to 57 million. Part of this increase (perhaps as much as one million) will be among the self-employed, because the war has drastically reduced employment among many types of professional men and among small owner-operated filling stations, eating places, and stores—particularly those dependent upon automobile travel. The rise in payrolls because of the increase in the number of civilian wage-earners and salary workers may be roughly estimated at from \$4.1 billion to \$5.7 billion on the assumption that total civilian employment is 56 million or 57 million. Reduction of working hours and loss of penalty overtime together may be expected to reduce payrolls by \$8 billion to \$9 billion. Shrinkage in payrolls because of movement of workers from high-paying to low-paying plants and industries is particularly difficult to estimate. It will probably be considerably less than the gains attributable to these shifts—roughly about 5 per cent of present civilian payrolls, or \$4.5 billion. These several estimates indicate that the total drop in payrolls might be as low as \$15.3 billion or as high as \$17.9 billion.

ful to prevent it by raising the price of labor? An accompanying drop in prices would not necessarily be deflationary because it would be largely offset by drops in costs—the withdrawal of many workers who are not worth their wages and the abandonment of penalty overtime. Nevertheless, enterprises would undoubtedly plan larger production programs immediately after the transition and thus would give more employment if they anticipated a slowly rising price level rather than a slowly falling one. Hence wage policy after the war should not prevent wages from rising to some extent for the purpose of limiting the *drop* in payrolls and for producing a *slow* rise in prices. This would be an important modification in the objectives of wage policy which is now designed to limit the *increase* in payrolls.

## VI

Are wage controls needed to protect the country against a post-war inflation? Between the Armistice and the middle of 1920, there was a rise of roughly 14 cents in the hourly earnings of factory workers—nearly as much as in the preceding four years. The cost of living rose 22 per cent and wholesale prices by 23 per cent. Compensation of employees increased from \$32.3 billion in 1918 to \$35.4 billion in 1919 and to \$42.3 billion in 1921.<sup>26</sup> If wage rates had not increased after 1918, however, there would apparently have been a decrease instead of an increase in payrolls and the post-war inflation would soon have collapsed.<sup>27</sup> Both the accumulation of needs and the

<sup>26</sup> W. I. King, *The National Income and Its Purchasing Power* (New York, 1930), p. 122.

<sup>27</sup> No accurate information concerning changes in wages is available for the period immediately after the first World War, but Paul H. Douglas has estimated that the average hourly earnings in all industries (using the number employed in 1890 as weights) rose from 48.2 cents in 1918 to 55.8 cents in 1919 and to 68.8 cents in 1920, and fell to 64.0 cents in 1921 and to 60.8 cents in 1922. *Real Wages in the United States, 1890-1926* (Boston, 1930), p. 205. Note that even in 1922 (the lowest year in the twenties) the average was far above 1918. What happened to salaries is not known. If Douglas' estimates may be regarded as roughly accurate and if wages had remained unchanged in 1919 and 1920, payrolls would have dropped from \$32.3 billion in 1918 to \$30.5 billion in 1919 and to \$29.6 billion in 1920.

The rise in payrolls after the first World War would have been smaller, had the war been followed by the substantial shrinkage in the work force or

accumulation of liquid assets in the hands of individuals and business enterprises are far greater in relation to productive capacity than in 1918.<sup>28</sup> Hence, is not the danger of a post-war boom (and later collapse) far greater today than it was in 1918?

There are two dangers: (1) that individuals and enterprises will start a rise in prices by spending their huge liquid resources too rapidly; (2) that increases in wages will force such rapid increases in prices as to touch off conversion of liquid assets into goods, thus bringing still further increases in prices. The danger will reach its peak when the shift to civilian production is almost, but not entirely, complete—when the fears of transition unemployment are pretty well over, when the demand for labor is high, but when the flow of consumers' goods is still restricted. Wage policy cannot directly deal with the first of these dangers, but it can do much about the second. Wage demands will be numerous, partly because many unsettled wage issues have accumulated during the war, and partly because many unions will have gone two or three years

by a large drop in weekly working hours such as may be expected after this war. During the first World War the work force of the United States underwent little abnormal increase and it continued to grow after the war. C. D. Long estimates the average annual labor force (including summer additions) as follows:

1914 .....	40,724,000
1916 .....	41,594,000
1918 .....	42,528,000
1919 .....	42,530,000
1920 .....	42,918,000

*The Labor Force in Wartime America* (New York, 1944), p. 40.

Contrary to experience during the present war, weekly working hours dropped during the first World War—from 53.5 in 1914 and 1915 to 53.0 in 1917, and to 52.2 in 1918. The drop continued after the war but it was small. For 1919, Douglas estimates weekly working hours in all industry at 51.3; for 1920, 50.4; 1921, 50.3; and 1922, 50.5. *Op. cit.*, p. 208. The drop in weekly working hours after the present war is likely to be 7.5 per cent or more.

<sup>28</sup> Since the economy was operating at close to capacity, income payments are a satisfactory measure of capacity. By the end of 1918, the growth of liquid assets outside of banks and insurance companies was about 30.9 per cent of income payments; by the end of 1943 about 47.9 per cent. By the end of 1944 it will be about 72.7 per cent. S. H. Slichter, *Present Savings and Postwar Markets* (New York and London, 1943), p. 6.

without an increase and will be looking for an issue. Wage demands will be particularly numerous and insistent if the relief needs of Europe are permitted to push up still further the price of food. Hence the prevention of increases in food prices will be of crucial importance. Possibly the opposition of employers to large wage increases might be sufficient to prevent a dangerously rapid rise in wages—as rapid as occurred in 1919 or 1920. Nevertheless, one cannot be sure, and, with an enormous deferred demand waiting to be met, it would be folly for the country not to have a national wage policy and an agency to implement it at least until the most impatient part of the accumulated demand has been satisfied. This indicates the retention of the War Labor Board for a year or more after the end of hostilities.<sup>29</sup>

## VII

The retention of the War Labor Board for a year or so after the war would raise important questions concerning (1) its jurisdiction, (2) the criteria it should use in deciding cases, and (3) the sanctions behind its decisions.

1. *The jurisdiction of the Board.* During the transition to civilian production many concerns will be bringing out new products to which existing wage scales will not completely apply, and will be opening up new departments and new plants. Experience after the first World War indicates that business births will reach a record-breaking high within two years after the demobilization of the armed forces—perhaps as many as 300,000 or more a year.<sup>30</sup> Most of these concerns will not come under the jurisdiction of the Board because they will have less than eight employees, but the case load of the Board will be extremely heavy. To prevent unsettled cases from creating unemployment, it would be desirable to exempt from the

<sup>29</sup> Incidentally, early removal of wage controls might be interpreted by the rank and file of many new unions as a green light for direct action on a large scale. Many union leaders who do not like the Labor Board are in no hurry to abolish it, because they fear the effect of its abolition upon union discipline.

<sup>30</sup> If 300,000 genuinely new enterprises were started in a year, the additions to the names on the books of Dun and Bradstreet would be around 500,000 because about 40 per cent of these changes represent shifts in ownership rather than the starting of new concerns.

Board's jurisdiction concerns with twenty-five employees or less and voluntary wage increases which involve no advance in prices.<sup>31</sup> The Board would then be limited to hearing dispute cases and nondispute cases where price relief is needed.

2. *The criteria employed in setting wages.* The present statute requires the President to maintain the wage rates of September 15, 1942, except as changes may be required (1) to correct gross inequities; (2) to remove substandard wages; and (3) to aid in the effective prosecution of the war. Obviously new criteria would be needed. It would no longer make sense to attempt to hold wages rigorously to the level of a given date—particularly one as early as September 1942. Furthermore, it would be unwise to repress the bargaining and organizing activities of the unions so drastically. Such an attempt would produce an increasing number of strikes, either authorized or unauthorized, and a revolt against the wage policy. On the other hand, the Board should not be *required* to raise the price of labor sufficiently so that straight-time hourly earnings rise in proportion with the cost of living. Such a rule would prevent the Board from introducing balance into the wage structure—it would compel increases even in peak rates which are likely to create "wage distortion unemployment". Of course, an attempt to compensate for rises in the cost of living by wage increases would be self-defeating to some extent, because in many instances it would compel price increases which in turn eventually produce further wage increases. This spiral effect would vary from industry to industry.<sup>32</sup> Since a central purpose of public wage and price policy will be to avoid precipitating a huge conversion of cash and other liquid assets into goods, the Board must be given the responsibility of keeping

<sup>31</sup> The Board is fairly well organized to handle a large number of non-dispute cases. Brackets have been set for nearly all occupations in all localities. All that is necessary is the determination of whether the new wage scales fall within the brackets. The proposal to exempt from the Board's jurisdiction concerns with twenty-five employees or less would exempt roughly 35 per cent of nonagricultural employees.

<sup>32</sup> If straight-time hourly earnings were accepted as the measure of the price of labor in pieceworking industries (as it usually should be), the spiral effect in these industries would not be great. The reason is that small improvements in working conditions raise hourly earnings with piece rates remaining unchanged.



the spiral effect of wage increases down to a safe rate—that is, a rate which does not precipitate a rush from liquid assets into goods.

3. *The sanctions behind the decisions of the Labor Board.* Although employers are required to obey the orders of the Labor Board, unions may strike against these orders. It would not be wise to make strikes illegal—even in time of war the country has been unwilling to do this. A real understanding between the government and trade unions that strikes will not be countenanced against decisions of the Labor Board until the danger of a disorderly rise in prices is over would be an enormous contribution to stability. It would not be an easy agreement for unions to make because strikes may be forced upon them by employers. Such an agreement would presumably involve an undertaking by the unions to discipline members or local officials who foster strikes against the Board—another difficult responsibility especially for new unions. It would have to be implemented by maintenance of membership clauses. At any rate, since employers are compelled to obey the orders of the Board, they are entitled to protection against strikes which have the purpose of compelling them to violate the law. This means that aiding or abetting strikes against the Board's decisions by picket lines, boycotts, or payment of strike benefits should be prohibited and that workers should not be permitted to retain wages paid in violation of the Board's orders.

## VIII

Whether or not direct wage controls will be retained for a year or two after the war must be regarded as exceedingly doubtful. Unwise and even reckless as would be their immediate abolition, it would not necessarily be disastrous. Other important controls will remain. The most promising of these will be large and prompt increases in production—and production, I believe, will rise much sooner and faster after the war than is generally supposed. A substantial budget surplus might be planned for the period of impatient demand. Attractive bargains in annuities might be offered holders of cash and war savings bonds.

Even if the War Labor Board is retained for a year or two, it should not be kept indefinitely. It restricts too drastically

the ordinary organizing and bargaining activities of labor organizations. The country, however, cannot escape facing the long-run problem of whether or not it should have a national wage policy and, if so, how it should be formulated and implemented. With a regular budget after the war from \$20 billion to \$25 billion a year, the nation must steadily have a high level of employment. Must not the nation, therefore, have an employment policy? And if the nation has an employment policy, must it not have a wage policy? Does not the necessity of maintaining a high level of employment greatly increase the national interest both in the structure of wages and in the response of wages to changes in the demand for labor? The wages of well over half of the workers after the war will be set by collective bargaining. A too prompt response of wages to changes in the demand for labor would cause changes in demand to produce mainly wage effects rather than employment effects—thus seriously limiting the increase in jobs. And the wage structure created by collective bargaining will reflect the bargaining power of different groups of workers and employers—it will be high where the workers have great bargaining power and low where the employers are relatively strong. This method of setting wages is bound to create more or less “wage distortion unemployment”—that is, unemployment which reflects the different attractiveness of wage bargains in different industries and occupations.

All of these considerations indicate a national wage policy. But, except in times of great emergency, the country is not used to thinking in terms of national interests. Indeed, the wage policy which would emerge in time of peace would probably not be truly national. Rather the making of the policy would be taken over by this, that, or the other special interest, just as special groups took over the making of the tariff. The foundation for a national wage policy must be a lively sense of national interest by all members of the community and willingness to go quite far in putting national interests above special interests. The best operation of collective bargaining requires such a national wage policy, but the most that one can hope for in the immediate future is that the public will become gradually interested in the relationship between wages and employment,

and that a scholarly and discriminating literature on the economics of wages will gradually grow up to influence public opinion and to guide arbitrators. Let us hope that this will be one of the legacies of the war.

#### REMARKS BY THE CHAIRMEN

CHAIRMAN JAY: Professor Slichter, we are very much obliged to you for the suggestive, even provocative, address that you have given us. And, ladies and gentlemen, you will perhaps be surprised when I tell you that I am about to introduce Professor Slichter to you in another capacity, for, to my great regret, I am obliged to take leave of this gathering now, and Professor Slichter has very kindly consented to assume the chair. His reign will include the question period that follows the prepared addresses. I have seen him conducting a very sprightly question period. I therefore think I should congratulate you on having him to conduct the question period this afternoon. Professor Slichter, will you be good enough to take the chair?

[Professor Slichter assumed the chair.]

CHAIRMAN SLICHTER: Ladies and Gentlemen, the next speaker is Professor J. M. Clark, Professor of Economics at Columbia University whose topic is "Price Controls in Transition". Professor Clark has been an adviser to the OPA, and he is engaged in a thorough research on the general topic of removing wartime controls.

I have great pleasure in presenting Professor Clark.

## PRICE CONTROLS IN TRANSITION

J. MAURICE CLARK

Professor of Economics, Columbia University

THE preceding speaker, and also the Chairman, have between them relieved me of some responsibility. My remarks interlock with Professor Slichter's, and I may shorten mine, where he has already covered the ground.

One way of organizing a discussion of this theme is under the two headings: "Considerations Bearing on the Possibility of Continued Controls if Desirable" and "Considerations Bearing on the Desirability of Continued Controls if Possible". In the case of wage controls, which have just been discussed, I have been inclined to emphasize the first heading and to consider that questions of what might be abstractly desirable would have to give way to questions of what is practicable. I frankly do not know what is practicable in that field. In the field of direct price controls I am inclined to take the other attitude on the ground that unless one assumes that what he says can have some effect on policy, he has little excuse for taking up time or increasing the paper shortage.

The subject is a large one and full of uncertainties. All I feel able to do is to present some angles of the problem and to suggest some tentative answers which I should hope might serve as pegs on which to hang discussion from which better answers might come.

"Transition" suggests the question: "transition from what to what?" In the first place, I think that means transition from a situation in which civilian supply has to be restricted relative to demand, and in which the avoidance of a runaway inflation requires direct price controls, to a situation in which we are free to expand civilian production, and the best single weapon against inflation is prompt and vigorous expansion of the supply of goods for private consumption (though other weapons would be needed, especially in the transition period).

In the second place, I shall assume that it is a transition back to what we call a "private enterprise economy", meaning qualifiedly private, as our pre-war system was. In the third place, I assume that it is a transition, ultimately, to a situation in which the main protection of the consumer will come from competitive forces; and by that I mean imperfect competition because that is the only kind there is.

In the fourth place, it is a transition back to an economy in which the most serious question will be adequate demand for labor in productive work and in which the government will once more take up responsibility for its part in that unsolved problem, into which it was feeling its way at the time the war intervened.

At the last session of this Academy we listened to a paper which cast some doubt on the legitimacy of wartime price ceilings and opposed all direct price controls after the war, even in the case of the temporary persistence of abnormal shortages directly traceable to the war. As over against this, I shall take the position that in a major war price controls as well as production controls are a necessity, quite aside from anything that could fairly be called lack of backbone in national policy on either taxation or wages. In the transition to peace, some price control will also be needed, but its objectives, the situations and problems it has to deal with, and the probable character of the control itself, will all be modified.

In both cases, control needs to be consistent with ample production. Both kinds of control deal with economic mobilizations, so huge and so rapid that they go beyond the kind of movement which can successfully be handled by uncontrolled values in a free market. To illustrate: Among many things the government needs is the total conversion of passenger-automobile production, mostly to tanks and planes. If this had to be done merely by outbidding the private consumer while the producer remained free to serve him, the result would be that the cost of the tanks and planes would be multiplied manyfold, the industry would make enormous profits, and instead of total conversion to war it would try to serve both markets. The higher the government pushes its bids in the effort to bring about total conversion of this and other industries, the more money it puts in the hands of the private buyers who are



bidding against it. Meanwhile runaway price inflation disrupts the home front generally. On reconversion, the boom and collapse of 1920-1921 offer an example of things to be avoided.

Wartime price control is not merely an attempt to prevent favored industries from getting rich out of the nation's peril, although that is an important element. It is also a necessary part of a program that aims to stimulate production to the utmost and divert as much as possible to war uses with as little as possible of waste, cross purposes, injustice and suffering. Uncontrolled prices would be obstacles to this rather than useful stimuli.

Just so, the most important thing about price controls during reconversion is that they should contribute to the most rapid possible resumption and expansion of employment in the production of peacetime goods, as fairly distributed as possible. Controls are needed to deal with various things that would interfere with this. Price control and rationing are needed where special wartime shortages or general inflationary pressures persist. Some controls may be needed in order to see to it that all would-be producers can get basic supplies and that artificial scarcities are not created by producers undertaking to build up inventories all at once, resulting in competitive multiplication of orders, hoarding, and speculative buying.

Where prices are too high and must come down, there may be justification for public efforts to substitute an orderly retreat for a disorderly rout, though there is always the danger that someone with an economic interest at stake (with or without a supporting intuition) may pervert the policy of orderly retreat into a policy of holding an untenable price position at all costs. The latter attitude would deserve the characterization which some wit once made (with less justification) of the NRA, when he called it "a desperate effort to stabilize the depression." This problem will arise during the initial pause for the post-war retooling of war industry; and it will need real wisdom to handle it successfully.

One of the first requisites is that price control should last long enough to be there when the transition comes. It must withstand the direct attacks of pressure groups interested in abolishing effective price control, and indirect attacks which use as a smoke screen the discontent of citizens at restrictions, the

inevitable mistakes and ineptitudes of administration, and some things that looked like mistakes but were actually cases of open-eyed choice between alternative evils, either one of which could be made to appear as a demonstrable error, by an adverse critic viewing it in isolation. Open attacks on the main program are apparently not much to be feared at present, but there is reason to apprehend attacks on necessary implementation, such as enforcement and compliance mechanisms, or attempts to split price control up among procurement agencies or other agencies not primarily concerned with the price structure as a whole, or other forms of emasculation by supposedly friendly amendment. These must be resisted.

The present situation seems to be that the wage structure will almost certainly break bounds if there is any further increase in the cost of living, and that the price structure will break bounds if there are any more wage increases. Therefore the whole line must be held, or the whole line will not only give way but be blasted loose from its anchorages. It would be undue alarmism to prophesy that this would necessarily lead to uncontrolled inflation, but it would have cumulative, multiplied effects before it could be checked at some new line, and it might be more difficult to hold the new line on account of having failed to hold the old one. In short, it seems that this strategic situation necessitates a more rigid price policy than might otherwise be required. It is, of course, the reason why food subsidies are a necessity.

When the end of the war is really in sight, the urgency of holding the line may be less and a moderate increase in prices would do no real harm, but there is no need to advocate this. It will have plenty of advocates. In fact, the difficulty will be to resist the urgings of those who will be telling us day after tomorrow that the war is practically over, that great resumptions of civilian production are right around the corner, and that price policy should forthwith be greatly relaxed.

Some transition issues are arising at present in connection with limited resumption of the production of durables which have been out of production, costs having risen in the meantime. For the near future, this problem will be encountered on a very small scale. I am skeptical about predictions that, as soon as a sound bridgehead is well established on the Eu-

ropean Western Front and the invasion is well under way, there will be a large release of resources for civilian production. Releases may increase before the European fighting is over, or they may be kept to a minimum as a result of stiff German resistance. Larger releases are due after the end of the European fighting and while the fighting in the Pacific is still going on, assuming that the prevailing prediction is fulfilled, and that the Pacific fighting outlasts the European by possibly a year or more.

The price issues arising in connection with limited resumption are, of course, related to the basic necessity of holding the main anti-inflation line. This means that, until the end of fighting is definitely in sight, the OPA, while it will have to make what price adjustments are genuinely necessary on account of costs, will have to resist all pressures to make more adjustments than are necessary, and will have to rely heavily on the producer's desire to get back into peacetime markets, to make him willing to resume civilian production on moderate margins.

At present it is commonplace that materials are more plentiful than manpower, and it will be some time before manpower as distinct from materials will be plentiful enough to permit resumption on a large scale. Does this mean that the proper adjustment should be to shift some manpower from producing the materials to other things for which it may be more urgently needed? To some extent that is probably the logical answer, but the problem is not quite simple enough to be wholly disposed of in that way. There may be instances in which it would be wise policy, rather than shutting down a high-cost mine working, which is pretty near the last of its deposits in any case, to continue until everything has been gotten out of that particular working, stockpiling if necessary the moderate amounts that would be involved.

There may be other cases in which materials could be used to save manpower, by resubstituting superior materials, the use of which has been limited or eliminated by specifications aimed at conserving them because they were scarce and essential for war uses. Now that manpower is the bottleneck, resubstitution might enable a given amount of manpower to turn out goods with more service value: clothes that keep you warmer when

the fuel is low, and that last longer before you will need to replace them. One drawback is that this might necessitate price adjustments, substituting an open price increase for one concealed in the shape of quality deterioration.

Limitations on civilian production will still be needed, in order to save manpower rather than materials. There may be cases in which a limitation on materials can be used to limit use of manpower without wasteful deterioration of quality; otherwise limitation of output is a more appropriate measure for the purpose.

The problems in the different fields are quite various, and they are going to make plenty of detail trouble. One of the conspicuous difficulties arises from the desire to treat all competitors in a single industry alike. For example, in the project to resume a limited amount of production in one of the minor durables, a proposed plan involved giving each producer a sales quota based on his pre-war sales; but not all the producers were in positions in which it was practicable to give them corresponding production quotas. Instead they were expected, where necessary, to subcontract their sales allotment and let some other producer who had a larger production quota produce their brand for them to sell.

In the case of a comparatively simple commodity, that might work. In a more complex and differentiated commodity, where the brands have more individuality, it would not be practicable. It seems inevitable that if, in this limited resumption, we are guided by economy and efficiency as required by the war effort, some producers are going to be allowed to resume ahead of others.

The resulting inequality may be mitigated in various ways, particularly perhaps by letting the early resumption of production be on either war models or pre-war models and by undertaking, if possible, to see to it that the different competitors get an equal start on their post-war models.

Since the best post-war price control (though not all-sufficient) will consist of prompt and ample supplies of finished peacetime products, the best preparatory policy during the closing phases of the war itself will be the release of materials needed for full reconversion of such facilities as can be spared from the war effort at that stage, even if until the actual end

of the war these plants can only be allowed to produce on a limited scale. For the same reason, materials should be released for advance experimentation with new products. Such experimentation seems to be more important than a few more vacuum cleaners a little sooner while the war is going on.

Another consideration bearing on resubstitution of materials is the fact that producers and dealers will have large inventories of goods made under wartime restrictions as to materials, goods which the market would take only at a very heavy discount when normal peacetime commodities should again become available, and they might be caught in a position that would involve very heavy inventory losses. These losses might be avoided or mitigated if holders of these inventories could start turning them over and replacing them with goods of post-war quality while the war is still going on.

Price control and rationing in foods will presumably be needed for at least one crop season after the end of the fighting in Europe. According to the generally accepted prediction that the Pacific fighting will go on for about a year after the end of the fighting in Europe, the end of the need for price control and rationing in foods might coincide, roughly, with the final end of the fighting. But that would be in the nature of a coincidence, and it would be much safer if we could be assured that public opinion would support continued price control and rationing in that field after the fighting finally ends, if emergency first aid in Europe should require it.

When that time comes, shall we have inflation or deflation or fluctuations or a mixed situation? The case in favor of the likelihood of general inflation rests largely on the existence of huge liquid savings and on the likelihood of temporary shortages of commodities of kinds which the post-war market will want. Wartime inventories of finished goods will need to be heavily discounted on that score. There are enough wartime savings hanging over the market to touch off a tremendous inflation if they start to move actively. How likely are they to start to move in the situation that will actually prevail?

When the guns go silent, war contracts will be terminated in large amounts, war industry will pause for retooling, and prices of most basic materials will presumably drop unless prevented. More important, as Dr. Slichter has mentioned, the flow of in-



come distributed to individuals will shrink drastically and there will be transitional unemployment on a very considerable scale. This will be the situation in which the owners of these savings will have the chance, if they choose, to pour them into the market.

How likely are they to do it? There appear to be two keys to this question. One concerns the kinds of goods for which war savings will be spent; the other the fact that different groups of people will be in different situations, in which some will spend and others will not. As to the first question, those who are planning to spend part or all of their war savings have in mind, for the most part, consumer durables—a new car, a new refrigerator, a house or improvements in the old one. But it is a foregone conclusion that at least the major consumer durables will be scarce immediately after the war in any case. The doubtful question is how much of these savings may go to increase the demand for other things, and so contribute to a possible general inflation.

Here the chief possibility is the worker whose standard of consumption of non-durables has risen, and who may on that account be more inclined to draw on savings to maintain consumption, and less inclined to skimp consumption for the sake of further savings. Then there is the man who wants savings enough for a "rainy day" and who now has what seems to him enough for that purpose, with the result that he will keep what he has, but not save more as he would otherwise have done. He will spend more and save less after the war as a result of his war savings. As offsets to these two, there is the man who has acquired enough savings to whet his appetite for more.

Reactions will also be affected by the different situations in which different groups will find themselves. There is the man who has lost his job. He will be using up some of his savings for necessities of life sparingly, but he will not be buying a new automobile or a new house. There is the man who still has a job but is afraid he may lose it. He will probably be spending less than his current income rather than more. There is the man who has a job and who feels pretty confident of holding it. He may go ahead with his projects for spending wartime savings for a new automobile or a new house or may follow

any of the other patterns already suggested. There will be large numbers of service men coming home, who will want civilian clothing. Many have married but never set up house-keeping and will want household equipment. Whether or not they have the liquid funds to buy the goods, they are likely to buy them and credit is likely to be furnished for that kind of necessity on one basis or another. Last, but not least, there is the man who, in order to hold his post-war job, must have a car.

Whatever happens, there will be some spending of war savings, partly balanced by further saving. The net balance does not seem likely to mean a wild inflationary spending spree during the first six to nine months; but durables will be scarce, clothing is likely to be scarce for a short time, and food may be. On the whole it does not seem likely that the initial contraction will cumulate into a real depression; chiefly because it does seem likely that there will be widespread, vigorous and intelligent efforts to prevent. Both industrial and governmental policy, involving unemployment benefits and announced programs of employment, will be important. They will not prevent a contraction of incomes, but they may do much toward determining a mood of confidence that the temporary transitional unemployment is temporary and transitional.

It is at this stage that there will be movements for support prices for many basic materials, prices of which may be in danger of slumping. Supports are already provided by law for a number of key farm products. As already noted, such support prices are in principle legitimate, while in practice they are delicate instruments, very likely to be carried too far.

After retooling comes the possibility, which Dr. Slichter also mentioned, of an inflationary scramble somewhat after the model of 1919-1920. It is entirely conceivable that in the case of materials which are not short in supply, producers who are preparing for an expanded production program, and who wish to assure themselves of the inventories necessary to carry it through, might initiate a scramble for materials, resulting in overordering, hoarding, increased prices and a superstructure of buying to anticipate further price increases, which would create artificial and unnecessary shortages and price booms, of a sort bound to end in reactions. This is merely one possibility.

The kind of control that seems most appropriate to meet such a contingency would start with an initial allocation of materials which could be liberal enough so that everyone with a bona fide production program could be assured of enough materials to start his program and enough further materials in time to carry it on. Such orders should be given a priority, with the probability that those priorities would not exhaust the whole supply; and over and above that, producers should be allowed to buy freely, that is, so long as they did not encroach on the priorities that were already established. The intent would be not to restrict total demand for, or production of, materials, nor to prevent the building-up of inventories, but to assure every would-be producer, including new producers not already in the field, of enough materials to carry on a program so that they would not need to be under temptation to overorder, to hoard and to build up the superstructure of an artificial scarcity. To repeat, that is based on the idea that with most of these materials there will not be genuine scarcities.

Wages after the war should be the highest that productivity will support without necessitating an increase in prices to cover increased unit costs. If they go farther, and push up prices by pushing up costs, they are on less secure ground, and are likely to handicap revival of employment, thus offsetting any increase in total buying power which might result from the wage increases. If a post-war revival of industry causes a spontaneous rise in prices, that should be welcomed if it is not a violent and essentially temporary boom. But it would be risky to try to force it from the cost side if the demand side is weak.

The area in which price ceilings may be needed longest after the war is that of the consumer durables in which there is a deferred demand which might, in the case of automobiles, take several years to fill, and, in the case of housing, might take something in the general range of ten years. This suggests that there would be scarcities such that exploitive prices would be possible even under competitive conditions, because the scarcities could not be quickly made up in any case.

The most favorable situation in this regard would be that for the minor durables most of those scarcities should have been made up quite promptly, a good many of them before the

war finally ends. That seems likely to be possible. Then the ones that would be left would be the major durables, led by the automobile industry, and these are industries which produce on a large scale with a limited number of large producers, in which price control is relatively simple, and compliance involves a minimum of difficulty.

As to the rationing which logically goes with that kind of price control, it might be possible that the establishment of priorities for particular kinds of uses would be sufficient as a makeshift during a transition period even though that kind of rationing would not afford price control the kind of substantial and positive support which a price control policy needs from a rationing program.

By the time these backlogs of deferred demand for durables are filled, it might be possible to demobilize price control machinery completely, on two conditions: (1) that in the meantime monopoly should not have become so firmly entrenched in our economy that permanent price control would be necessary, and I am construing monopoly broadly enough to include some of the things that Dr. Slichter covered in discussing the possibility of a wage-price spiral; (2) that a public policy of eliminating unemployment does not set such high standards as to be inflationary. We have overemployment now with nearly a million technically unemployed. If government should set a ceiling on unemployment at two million, even that might amount to guaranteeing an absolutely inelastic demand for labor. Organized labor would be very well prepared to take advantage of that opportunity, and the result might be a wage-price situation in which permanent price controls (if possible) might be necessary in order to prevent a progressive inflation. I am hoping that both these alternatives may be avoided, and that wartime price control may end with the end of special war-caused shortages.

#### REMARKS BY THE CHAIRMAN

CHAIRMAN SLICHTER: Thank you, Professor Clark.

The final topic for discussion is "Termination of War Contracts" by Mr. Henry E. Bodman, Counsel of the Automotive Council for War Production.

## TERMINATION OF WAR CONTRACTS

HENRY E. BODMAN

Counsel for Automotive Council for War Production

**I**T has been well said that there are two principal things which menace human happiness. One of these is war and the other is unemployment. We live in the hope that we are approaching the termination of the war. Whenever this comes, we will be immediately confronted with a war against unemployment. Unemployment may be a cause of war. But for the period of prolonged unemployment in Germany, we might never have heard of Hitler.

If the war should come to a sudden end, what we would actually do would be to tell half of our entire industry to shut down. This is a dangerous thing to do and plans for doing it should be made now. How well and how quickly reconversion is accomplished will affect the welfare and perhaps the safety of us all. This task is a challenge to America; to government and to industry alike. Unless reconversion is accomplished speedily, we will have the longest bread line in our history.

### *Nature of Contract Settlement*

I should like to discuss briefly the nature of the termination problem and suggest a few of the things which in my opinion should be done by Congress and the executive branches for its solution.

Most of you have a good understanding of what settlement of a terminated contract involves, but to make the nature of the problem perfectly clear to all of you, I would like to make use of a very simple illustration.

When termination occurs the government and the contractor will find themselves in somewhat the following situation:

Let us suppose that you had contracted for the erection of a ten-story building and that when five stories had been more or less completed you were to tell the general contractor to stop work. You would then have to come to some agreement with him as to fair compensation for what he had done, for the materials on hand and ordered in anticipation of complete performance, and for the obligations which he had incurred to his various subcontractors and suppliers. He in turn would



have to come to an agreement with his various subcontractors who had undertaken to supply the steel, the masonry, the plumbing, the heating, the lighting, the air conditioning, the woodwork, and the hundreds and perhaps thousands of other items entering into the construction of such a building. Perhaps there would be 100 or 200 subcontractors and suppliers. A settlement would have to be made with each one of these.

In arriving at these settlements, agreements would be entered into for the retention of some of the material and parts which the contractor might be able to use in his regular business and which he might be willing to retain and credit upon his claim at some agreed price; agreements for the sale of some of the material to others at a price which you, the owner, would approve; agreements that some of the material should be scrapped and the salvage value applied in the reduction of the contractor's claim; and agreements as to what part should be turned over to you, the owner. Similar agreements would have to be entered into with subcontractors and suppliers all down the line.

Now suppose that you had contracted for a million such buildings and you were to stop work under all these contracts at different stages of completion. You would then be in a situation similar to that of the government upon a general termination of war contracts. A similar series of settlements will have to be made with war contractors and suppliers doing over one-half of all the business in the country.

There will be, literally, millions of contracts, subcontracts and purchase orders to be terminated and settled. In many cases, one prime contractor will have entered into several thousand subcontracts (including purchase orders) and these subcontractors, in turn, will have entered into other purchase orders. On a general termination all of these thousands of war contractors will have to be settled with and it is important to understand what "settlement" involves. It is not merely a bookkeeping or auditing job. It involves the negotiation of a new or modified agreement as to what should fairly be paid for a partial, instead of a complete, performance of a contract.

It must provide for payment for work in process, materials on hand, and commitments and obligations in connection with the uncompleted part of the contract. The settlement must deal with the disposition of materials on hand: whether they should be sold, and if so at what price; whether some of these

materials are to be retained by the contractor and credited on his claim, and if so at what price; whether they are to be scrapped and the salvage value credited to the government; or whether the government is to take these materials over for such disposition as it may see fit to make; and also what amounts are to be paid to subcontractors and suppliers.

Settlement is not merely a bookkeeping or auditing job. It is much more than that.

*Clearance of Plants — Verification of Inventories*

I want now to refer to the physical side of the problem.

The first step to be taken is to clear the plants of government machinery and war materials. This problem is more serious in some plants than in others. But in the automotive industry it is a serious problem. When one considers the vast part of our population that is dependent upon motor car and truck production, that only about one half of this production takes place in motor car and truck plants themselves and that the remaining one half takes place in thousands of other plants that supply steel, glass, leather, wheels, tires, bodies, upholstery, etc., one can realize the importance of speedy clearance of these plants.

The automotive industry is one of the greatest employment potentials in America today. The public will be waiting for motor cars and trucks. If the motor industry, on the termination of the war, can speedily resume peacetime production, it will provide employment for millions of warworkers and millions of returning service men.

What are the obstacles to be overcome? Automotive plants in general require extensive reconversion. Machinery and equipment not adaptable to war business have been ripped out—machinery foundations torn up, conveyor lines pulled out. Plants are filled with government-owned machinery and equipment. In one plant in Detroit, and by no means the largest, 100 acres of floor space, 96 per cent of the entire plant, covering an area greater than the bomber plant at Willow Run, are filled with government-owned machinery, war materials and work in process.

Why not move them right out? Let me tell you why not. Because this material and work in process will be the basis of the settlement claim. Before this claim can be paid, these items must be listed and accounted for. The government will not pay for all this until it has satisfied itself that the material

and work in process is actually there. No one knows where it can or where it will be stored when it is removed. When the claim for payment is examined and the government asks the contractor (as it certainly will), "Where is all this material and work in process for which you have asked payment?", the contractor will be called upon to answer that question and his only safety lies in having this material in his own hands where it can be counted and identified.

Their inventories are extremely complicated. They include thousands upon thousands of different parts. When they leave the contractor's plant they may be stored at great distances or mixed with inventories of other contractors. Some of them may be lost or stolen or damaged by the elements.

So that I think I am safe in saying that ordinary prudence will require that before this material is removed it must be checked by the government not only as to quantity and number of articles, but as to their state of completion, so that once it has left the contractor's possession his inventory cannot thereafter be questioned.

*Finality of Settlements — Disposition of Materials —  
Payment of Suppliers*

Having prepared an inventory of the property on hand, these various contractors will want to know what the government wishes to have done with this property. Some of it the contractor may be willing to retain and make no charge for; some of it he may be willing to retain at some mutually agreeable price; some of it he may be able to sell to others at prices which the government finds satisfactory; and some of it should be immediately scrapped. The fact is that a very large percentage of this material is special to the war and will have no value at all except for scrap. All of these questions will come up for settlement. This requires agreement between government and the various contractors and instructions from the government as to what disposition is to be made. Under government contracts no settlements can be made by the prime contractor with subcontractors or suppliers without the approval of the government. What amounts will the government permit the prime contractor to pay to his many suppliers? These decisions must be made promptly and, when made, the parties concerned must be able to act upon them with finality.

If these matters are governed by a settlement agreement which is *tentative only* and which cannot be acted upon until reviewed by another agency, the process of settlement will be slowed down until this review is completed. It has been suggested (and a provision to this effect is incorporated in a bill now before the House of Representatives) that no settlement with any war contractor shall be anything but *tentative*; that no such settlement shall be effective until it has been reviewed and approved by a Contract Settlement Board to be chosen by the Comptroller General of the United States. This Board will be allowed six months within which to act.

Let us see how this would work out.

In arriving at the amount to be paid in settlement, one of the most important matters to determine is whether the materials and work in process for which payment is asked have actually been procured and their stage of completion. The Review Board may not be satisfied with the tentative settlement made by the contracting agency but may wish to examine and check this inventory a second time. How can the contractor afford, in view of this possibility, to remove the inventory and allow it to be dispersed? To be safe, he must retain it under his control until he knows that the Review Board is not going to check it a second time.

Furthermore, under the form of government prime contract, no prime contractor can settle with a subcontractor or supplier without the consent of the contracting officer. If this consent is only tentative and subject to review and approval by some other government agency, the prime contractor cannot settle with and pay off his subcontractors or suppliers (except at his own risk). *He will simply have to wait until the review is completed.* Neither can he take over, or sell to others, or scrap materials on hand, until the tentative settlement is reviewed and approved.

#### *General Accounting Office*

The proposal that no agreement of settlement shall be final until approved by the General Accounting Office is at variance with the purposes for which that office was created. The General Accounting Office has never had the power or authority to create obligations against the United States. Its function has always been essentially an audit or checking function. Its power to "settle and adjust" contractual claims against the

government has been to determine whether the amounts paid or proposed to be paid are called for by a contract into which some other agency has entered. The Comptroller General can decide whether he will recognize a contract calling for payment as legal and whether there are available funds appropriated to carry it out. But he has never had the power to approve or disapprove a contract or bind the government by making one himself. He has recently said that he has nothing to do with the wisdom or fairness or equity of contract provisions and has no power to negotiate.

Contracts have been entered into by the procurement agencies committing the government to the extent of approximately 200 billion dollars to prosecute this war. To terminate and settle the uncompleted war contracts will involve a small percentage of that sum. If the procurement agencies who were authorized to incur the obligations involved in the complete performance of these contracts are not competent to terminate these contracts by negotiating agreements to reduce these obligations, how can it be assumed that an organization which has never had the power to negotiate a contract or incur an obligation and has had no experience or training for that purpose and which was never selected for that purpose could do the job any better or as well?

In negotiating settlements business judgment of a high order will be required. For example, the terms upon which materials should be disposed of, or scrapped, must be decided: what allowance shall be made to the contractor for the cost of special machinery, special tooling, etc., procured for the purpose of completing a war contract, in view of the fact that he has been cut off in the midst of his work; whether these items will be usable in the contractor's regular business and to what extent; whether leases of property entered into for the purpose of the contract should be canceled, and on what terms, or allowed to run out; whether materials ordered were in excess of the reasonable needs of the contract (and in this connection the difficulty of obtaining delivery on time must be given weight); what should be done about the division of overhead.

This is a field in which the staff of the General Accounting Office has had no training and for which it never was selected.

Many of these contracts are very complicated. I know of one which has been amended and supplemented more than eighty times and another more than two hundred times. To



expect an organization of auditors to negotiate intelligently a settlement of the millions of terminated contracts, and especially to do this within a period of six months, is to expect an impossibility. My fear would be that as the time limit approaches, settlements would be disapproved merely because of lack of time to examine properly and approve them.

To transfer the power to negotiate contracts of settlement from the Armed Services to the General Accounting Office during the war period will of necessity interfere with the conduct of the war. Contracts are being terminated almost daily and replaced by other war contracts. If these terminated contracts cannot be settled by the Armed Services, particularly with respect to the disposition of materials which may be required for other war contracts or which should be scrapped and removed to make way for other war work and with respect to the amounts payable to subcontractors and suppliers until the General Accounting Office has had six months to review these matters, the war effort will be seriously impeded.

What is really proposed is to take away one of the functions of the procuring agencies of the military departments and transfer that function to an agency that never was intended or organized to perform it. The Armed Services would be left with the power to enter into contracts for war materials but they could not enter into contracts to reduce the materials ordered. *They could make contracts but they could not unmake them.*

It is my firm conviction that nothing that Congress could do would be more effective to slow down the process of terminating settlements than to hold up settlements until they are reviewed by another agency; and that if any such provision is enacted into law it will seriously retard post-war employment. Settlements must be final when once made and not subject to be reopened except for collusion or fraud. One agency, whatever it may be, should be set up with full power to deal with the subject under proper safeguards for the protection of the government and the contractor as well. Full and careful examination of termination claims must be made. All the time necessary should be taken before settlements are made. But we should not have a series of settlements. Some mistakes will be made no matter what agency has the responsibility for settlement. But the performance of the settlement function must be

looked at as a whole, and it would be unfortunate if an occasional mistake should lead to a procedure so intricate and time consuming that we fail of our real objective, which is to get back to peacetime production and economy in the shortest practicable time.

### *Interim Financing*

Pending the final settlements of terminated contracts, the war contractor must receive payments in anticipation of the amount to which he will be found ultimately entitled. This subject of interim financing is one of great importance, but the impression is too widespread that it affords a full solution of the problem. Advance payments are in effect mere loans and must be shown on financial statements as liabilities. They are a mere stopgap. There can be no substitute for a prompt final settlement.

There are some industries, including the strongest ones, which could survive and proceed on the basis of interim financing; but there are many weaker ones whose credit would be seriously impaired; and it is these smaller, weaker concerns which are entitled to the utmost consideration. To have concerns in this category sitting on the anxious seat while settlement agreements are being reviewed and sent back for renegotiation may well prove to be their undoing.

### *Insolvent Vendees*

In the heat of war production, many subcontractors and suppliers have been called upon to perform work and furnish articles to other war contractors with little or no credit standing. In many cases, war contractors have been directed to enter into subcontracts and accept purchase orders from concerns with very small capital and which may easily become insolvent.

When a war contractor has furnished goods or services to companies (many of which have been improvised simply for war work), and is unable to obtain payment of his claim, he should be assured of payment by the government. This is only common and ordinary fairness and equity. Procedures should be set up so as to assure such payment, and where necessary the government should pay these claims directly instead of allowing them to follow down the chain of subcontractors to the war contractor involved. Any break in this chain may make it impossible for the contractor entitled to be paid to receive his money.

Suggestions have been made to Congress to accomplish this result, and it is to be hoped that some procedure will be worked out to care properly for situations of this character.

### *Conclusion*

Legislative and administrative procedures should be established without delay. These should include: (1) provision for the prompt clearance of industrial plants; (2) provision for the prompt settlement of war contracts which will be final and conclusive except for collusion or fraud; (3) sufficient advance payments to free the working capital of war contractors so that civilian production can be resumed; (4) partial final settlements without waiting for approval of the entire claim; and (5) the protection of war contractors against insolvency of other war contractors to or for whom goods or services have been furnished in furtherance of the war effort.

In conclusion, let me say that serious and commendable efforts have been and are being made by the executive and legislative branches to assure prompt reconversion to a peacetime economy. Many bills have been introduced and hearings have been in progress from time to time since June last. I agree entirely with the suggestion made in the Baruch-Hancock Report that a joint committee of the Senate and House, in co-operation with the Executive Departments, should decide on some one termination bill and urge its passage.

There should be no partisan controversy, no conflict between different branches of the government. There must be a combined, unified coöperative effort to bring about this reconversion at the earliest possible time and in the soundest and most practicable way.

### REMARKS BY THE CHAIRMAN

CHAIRMAN SLICHTER: Ladies and Gentlemen: The meeting, in accordance with the traditions of the Academy, is open for informal discussion from the floor.

Since there seems to be no desire to discuss from the floor, it is best, in the circumstances, to declare the meeting adjourned.

# PART III

## PROBLEMS OF WAR AND THE TRANSITION TO PEACE

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### INTRODUCTION \*

LEON FRASER, *Presiding*

President of the First National Bank of the City of New York  
Trustee of The Academy of Political Science

THE best way to begin is to begin. I am instructed by the Academy of Political Science to greet you in its behalf, and to say that it is the custom of the Academy over many years to have a distinguished audience meet distinguished speakers who talk about important subjects. That historic precedent is not going to be broken this evening.

Many of you have listened today to forceful and interesting discussions on topics of great moment. We wish to thank the speakers who have taken time out to discuss for you and for us those timely questions.

Tonight we have an eminent warrior and an eminent civilian, one from this side of the ocean, the other from the other side of the ocean. "In times of peace prepare for war", but now the slogan is "in times of war begin to prepare for peace." Your general subject today has been the transition period between the two. If I understand it correctly, the two speakers whom I am about to present to you are going to talk respectively, one on the subject of preparing for the peace—preparing for it in the economic field, the business field, the financial field, the agricultural field, and in every field that does not touch the military field—and the other on the subject of the transition between the war and the peace.

It would be an interesting paradox if the person who had devoted his life to a military career should speak upon civilian

\* Opening remarks at the Third Session of the Semi-Annual Meeting.

matters, and if he who had devoted his career to civilian life should lay some emphasis upon military aspects. I suspect that that may happen, because everyone likes to talk upon the subject about which he does not know much. [Laughter]

Our meeting tonight might fittingly have been held upon St. Patrick's Day, because the Field Marshal who is here was born in Belfast, and the former Senator, Justice of the Supreme Court, Member of the House of Representatives and lawyer who is here is, I am sure, of Irish descent. The shamrocks, however, are not yet in order.

Our first speaker I shall not endeavor to introduce to you. I shall say only that he has been in all the wars that have been fought since he was old enough to go to war. In the present conflict he has visited every one of the Allied countries and every battlefield, having been 100,000 miles in the air during the year just past.

He has been steadily promoted in his profession from every rank to a higher rank, until now he is Field Marshal of His Britannic Majesty's Army. He has been sent to the United States to sit in council in the highest commission they could discover, namely, the Joint Commission which decides what is going to happen next in this war in which we are all engaged.

That he should take time out to come away from one of those meetings in Washington to join this Academy tonight is an honor which we appreciate; and we beg to say to you, sir, that everyone who has met you as you have traveled throughout the United States has said that British diplomacy should no longer depend upon its diplomats; it ought to depend upon its Field Marshals, whom we respect and whom we love. Sir John Dill!

[The assemblage arose and applauded.]

#### REMARKS

FIELD MARSHAL SIR JOHN DILL: Ladies and Gentlemen: First of all, as the Chairman has said, I am asked to talk about a subject of which I know nothing. [Laughter] Mr. Douglas is a man whose requests I can never refuse. You, also, may have found that out; and so I had to come to address your Academy. To be on the same platform with Mr. Justice Byrnes is a very high honor, one which I never anticipated would come my way.



## THE PSYCHOLOGICAL APPROACH TO THE TRANSITION FROM WAR TO PEACE

FIELD MARSHAL SIR JOHN DILL

Member of the Combined Chiefs of Staff, United States and Great Britain

IT is with a very real and acute feeling of apprehension that I stand here tonight. I feel it a high honor to have been invited to address your Academy, with its record of more than half a century as a mold of thought in this city and state and country—a society whose influence, indeed, extends far beyond the limits even of your great land.

I am flattered by the invitation to address the Academy, but at the same time, as I have said, apprehensive. I pretend to no profound, or even average, knowledge of political science; I am not an economist. My trade has been war, and that is a trade which gives only indirect opportunity for the study of the vastly important subject which is the prerogative of this Academy.

I can imagine that it may be said that it is entirely wrong for us to discuss the transition to peace at a time when we are still engaged in a most bitter war, of which the bitterest part probably still lies ahead, and at a time when no man can foretell when the end will be. It may be said that to discuss the transition to peace at this stage is completely upside down—like the packing case, the story of which has gone the rounds of the British Army. A gigantic packing case—so the apocryphal story runs—was seen one day lying in an Army Depot, awaiting dispatch overseas. It bore a large label, which, in bold letters, read: "In order to avoid confusion, the top of this case must be clearly marked 'bottom'."

I am convinced that it is very desirable that we should turn our thoughts now to the problems of peace, and particularly to the problems of that twilight period between the darkness of war and the clear daylight of established peace—the period of transition from war to peace. We can now see signs of the dawn, and we know that it is no false dawn. It would be idle for me to speculate how long it will be before the sun rises, before, as Mr. Churchill has put it, "the torment of all man-

kind" is ended. But there is now assurance in all our hearts that the torment will end, and that victory and peace will come.

Therefore, we are now justified, indeed are bound, to turn our thoughts to the peace which will come, what it will mean, and how we are to plan so that it will be a peace which will not be a mockery, but a peace which will bring abiding benefit to the whole human race.

It is not necessary for me to emphasize that, in thinking of, and planning for, peace, we must not for one moment relax our efforts and our energies from pursuing the prosecution of the war. First things first, and no one can doubt that the first thing still is the most intense and unrelaxing effort to achieve victory in the shortest possible time. I believe, however, that reasoned thinking and planning for the problems of peace is a help and not a hindrance to the successful prosecution of the war.

The problem of transition from war to peace, as I see it, is a threefold problem. It is a political problem, an economic problem and a spiritual problem. All these aspects are inter-related, all bear intimately on one another, all have their psychological side, and all of them are supremely important. Let me try to define what I mean by the three aspects.

First, the political problem. This is the ordering and governing, as we change from war to peace, of our political existence, both as individual nations and in our international relations, on such a basis that the scars of war may be healed as quickly as possible, that, combined with just retribution of the enemy, there may be comity, justice and fair dealing between nations in the years to come, and that, so far as political science in its widest sense can ensure it, the nations within themselves and in their relations with one another will so act that such a war as we are now enduring, with its untold record of human misery, shall not occur again.

Second, the economic problem. This involves, I believe, the assurance to each nation, including those nations and countries especially which have suffered most at the hands of the Germans and their partners in crime, the Japanese, of a fair opportunity to restore a reasoned and satisfactory economic existence, removing, as soon as may be, the calamities of

starvation, disease and misery from which the peoples of many countries are at this moment suffering, peoples which will, there is all too much reason to fear, continue to suffer in yet worse measure before the Germans and the Japanese have gone down in final defeat. That is the economic problem of the transition period, and it is a difficult one.

Lastly, there is the spiritual problem—on which everything else, I believe, depends—the problem of the restoration to individual human beings all over the world of the faith and the courage and the ideals by which alone we can move from the darkness into the light.

I have not much to say today about the political or the economic problems of the transition. For one thing, I want to hear Mr. Justice Byrnes, and, for another, I fear that I should expose my ignorance of political science and of economic theory. Moreover, these are both fruitful fields of controversy, and, if there is one thing which I have learned from many years of soldiering, it is—paradoxical though it may sound for one who is an Irishman and whose trade is war—never gratuitously to enter into a fight, at any rate unless you are quite certain that you are right. And I have no such comfortable assurance as to my views on political and economic matters. And so, with your permission, I shall discuss these two aspects of the problem in a very few words.

On the political problem of transition there is, I think, one lesson which we have learned from the war—one of the few good results which have come out of evil, but it is very good—that is, that the nations can, if they put their minds to it, work together with complete and absolute success. Your great nation and ours, the United States and the British Commonwealth, have shown it in this war—and even before it was your war, you showed it by your great gesture of lend-lease and by the moral support you gave us in our darkest days. By these things you helped to save us, when many had given us up for lost. Our two nations have shown by complete collaboration that, when the need arises, we can work together in complete amity, settling our differences, when differences arise—and they are bound to arise—by good will and good sense, with each subordinating everything to the common end. It is not, of course, the first time that we have stood side by side and

realized that coöperation was better than aloofness or disharmony. A distinguished American writer in a recent book reminds us of an incident, some fifty years ago, when an American statesman, having somewhat violently twisted the lion's tail—and with success—a year or two later said this: "The two peoples . . . take with each other liberties of speech which only the fondest and dearest of relatives indulge in. Nevertheless, they will be found standing together against any alien foe by whom either was menaced by destruction or irreparable calamity."

What has all this to do with the transition from war to peace? A very great deal. Must we confine our unity of purpose, our collaboration and our common zeal to those periods when we, or either of us, are "menaced by destruction or irreparable calamity"? Can we not hope to continue to work together with the same unselfishness and unity when the war has ended and we are faced with the no less real problems of leading the world back not merely to the negative peace which is the absence of war, but the positive peace which means new faith and new hope for the whole world? Cannot we hope that other nations also, by the example of what we have done, will join, not in a political union, but in a community of effort to rebuild the whole political structure of the world in a better way than it has ever been established before? This may be an idle dream, but if it is, I feel that there is small hope for the world. We have seen how you and we can stand together, both in council and fighting side by side in the field, when we have been menaced by "irreparable calamity". The calamity which will befall, though less sudden and dramatic, will be no less certain and no less irreparable, if you and we, and the other nations who have fought with us in this war, do not stand together when the time comes to settle the political questions which will arise at the end of the war, the determination of which—whether they be determined wisely or unwisely—will settle the future of the world for generations.

And now I must say a brief word on the economic problem of the transition from war to peace. What that problem will be is clear enough. The whole economic structure of the world has been distorted in every country by the vast upheaval of the war. In every country with very few exceptions, a great

part of the labor and wealth which would normally have been devoted to productive ends, to the worthy task of producing in order to raise the standard of life and increase the material possessions and benefits of mankind, has now for three, four or more years been devoted to the task of producing munitions of war. These, in their turn, have often been used to destroy the amenities of civilized existence. Some countries, it is needless to say, have suffered much worse than others. Bombing and land fighting, deliberate pillage by the enemy to bolster his war machine and to provide for his people at home at the expense of the people of conquered lands, the carrying off of men and women in hundreds of thousands to slavery in its modern form, the deliberate disruption of industry and social life to establish a "new order" whether in Europe or in the Far East, all these things have brought about economic chaos and human misery in varying degrees. This, surely, will be one of the great problems of the transition from war to peace. How it is to be tackled, how far the more fortunate can help the less fortunate either directly or by helping them to help themselves, how far nations can show themselves capable of that charity to others in distress which individuals so readily give, all these are questions which I cannot attempt to answer. But I am certain of two things: first, that without economic stability there can be no political stability; and second, that if nations, as such, are not capable of generosity and breadth of vision in the economic field, there is no hope that the period of transition from war to peace will be smooth or that it will provide a base on which enduring peace will be founded.

Can we, as we approach the end of the war and begin to plan for the days of peace, go forward in the belief that nations, groups and individuals have learned enough from the tragedy of this war to be prepared, if need be, to make sacrifices for peace as well as toward war, to give up, it may be, luxuries or amenities in peace, as they have been prepared to give their blood in war, to accept limitations and restrictions, if need be, in order that the world may be reshaped for peace and more quickly settled on a foundation which will enable all, the weaker nations as well as the stronger, to use the possibilities which peace should bring? If we are not justified in that belief, the outlook is dark, indeed.



And now I turn to what is my main theme tonight—what I have called the spiritual problem, by which I mean the problem of the mind and thought of the individual. As I see it, everything in the transition months or years depends on that. In the political and economic aspects of the problem we are concerned primarily with nations and national action. But, after all, a nation is no more than a collection of individuals, united by common consent under one form of government, with, usually, common characteristics of race, language, geographical proximity and tradition, or some combination of these. We of the democracies, believing firmly in the democratic conception of life, should be the last to deny the importance of the individual.

It is my firm conviction that in the post-war period, while war is shading into peace, the most important factor of all in determining what the nature of that peace will be, and whether it will endure and whether the years to come are going to be a bright or a dark period of human history, is the thought and mind of the individual in every country which has been affected by the war—the spiritual approach of the individual to the post-war world.

The great danger, as I see it, in the period of transition is “war-weariness” — the attitude which Shakespeare has expressed, through the mouth of Antony, “Unarm, Eros, the long day’s task is done, and we must sleep.” There is no sign of that attitude now, among the people of the Allied Nations, but is there not a real danger of it when the war ends? Yet that is the time when it will be of the utmost importance that there should be life and energy and action to rebuild what the war has broken and to shape the new world in a better form on solid foundations. It will be a natural reaction for most men and women to feel that they have earned a rest when the war is won. We have been living at high pressure in the past years. In our countries, luckier than some, we have not had to undergo the humiliation, the danger and the constant strain of having the enemy within our gates. In Britain we have had the long and wearing ordeal—now being well repaid—of nights and days of threats of destruction from the air, the civilian equally with the soldier. We have had for four years, and still have, the hardship of strict rationing of almost every food

and most of the other necessities of life and an almost complete disappearance of the luxuries of life, and we have endured for four and a half years the depressing darkness of the black-out. In your country and in ours we have sent most of the young men, and some not so young, into the armed forces, involving a new mode of life, the breaking up for the time being of settled life and home and family ties. Many have gone overseas and have undergone the bitter experiences of battle. Many will not come back. For those in both countries who have remained at home, there has been, almost universally, an existence of long and continuous days and hours of work in the office or the factory. Everywhere there have been the movement and unsettlement consequent on a gigantic war effort. In countries occupied by the enemy the same trials and evils have occurred in countless greater measure. It would be small wonder if, at the end of it all, we tended to say: "The long day's task is done and we must sleep. We have won the war by our united efforts. Now let us eat and be merry, or, if that is not possible, let us at least rest and be quiet."

Is not that largely what happened in 1918? And is not that largely what was responsible for the futility and waste of the years between the wars? The work of rebuilding and creating the peace is a work which will call for all our efforts. We cannot achieve it, and we shall end in failure again, if we either eat, drink and are merry, or allow ourselves to treat victory in the war as the end of our efforts and imitate the lotus-eaters' "Surely slumber is more sweet than toil."

How, then, can we conquer this war-weariness, in ourselves and in others? What must we do to be saved? It is very hard to say. First, I suggest that the mere recognition of the danger will go far to avert it. We must realize that, if we want "homes fit for heroes" for our returning soldiers, we must bestir ourselves to create them, by planning and by action when the time comes. Second, we must preach day in and day out, in season and out of season, that the end of the war will not be the beginning of an automatic heaven on earth, but that more must be done, and done by each one of us, no matter what we may have done to win the war, than ever we did in the old days of peace. Third, we must prepare ourselves and prepare others for the continuation, in the months or years of

transition, of the self-discipline and, if necessary, some of the restrictions which we have accepted without question during the war. Fourth, we must resolve, and unswervingly carry out the resolve, that the coöperation between nations will not end with the war no matter what form it may take in the years of transition and beyond. And, if we can persuade ourselves of these things, we can persuade others too.

I am not going to speak today of the problem (a most formidable problem) of the re-education of those unfortunates who have been brought up in the atmosphere of the dictator countries and who have become imbued with the doctrines of Nazism or the code of Japan. But I think I should say a few words about those men and women who have perforce lived for years in lands in Europe overrun by the German armies and occupied by them with all their wonted inhumanity and all their barbarism. What will be the mental attitude of these men and women when the hour strikes and the German armies and the Gestapo and all their retinue vanish in defeat? For an analogy, my mind goes back to the times of the Roman Empire, in the vile days of "The Terror", when emperors of the type of Nero and Caligula played the part which has been filled in our day by tyrants such as Hitler and Mussolini. The analogy is in many ways extraordinarily close. There were the same bestial tyranny and blood lust, the same system of organized spying and the same dark atmosphere of suspicion, treachery and suppression of all freedom of thought or speech. Here is a description of the mental attitude of a Roman citizen, of high character, when the terror at last ended. The description is written by a classical scholar of the last generation. He is a relation of mine, a certain Sir Samuel Dill, but nonetheless he was a distinguished classical scholar. I think the description may help us to realize what the mental attitude will be of the decent citizens of Europe when Hitler's terror ends:

He has seen a single lawless will, unchecked by constitutional restraints or ordinary human feeling, making sport of the lives and fortunes of men. He has seen the sons of the proudest houses selling their ancestral honour for their lives, betraying their nearest and dearest, and kissing the hand which was reeking with innocent blood. When he looked back he saw that for more than fifteen years, with brief intervals,

virtue had been exiled or compelled to hide itself in impotent seclusion, and that power and wealth had been the reward of perfidy and grovelling self-abasement. The brooding silence of those years of humiliating servitude did not extinguish his faith in human virtue, but it almost extinguished his faith in a righteous God...but, with all his intense faith in goodness, the spectacle of the world of the Caesars has profoundly shaken his trust in the Divine Justice.

So it must be with many in occupied Europe when the night passes and liberation comes. Their trust in justice, human as well as divine, will be profoundly shaken. If peace is to be more than a mockery when victory comes, it will be necessary that somehow, during the transition from war to peace, the faith and belief in justice and the decency of humanity must be restored to those who have suffered under the terror. How that is to be done is, perhaps, in the main a matter for the statesmen. But it is a matter of no small importance for the future of the world in the coming days of peace that we should recognize that we, who have been more fortunate, have an obligation to those who have suffered under the terror—an obligation which does not end with the fact of liberation.

All that I have tried to say really amounts to this—that, although we must place first and foremost the achievement of victory, victory in the war does not end the fight in which we are engaged. Victory in war is incomplete without victory in peace. We may have different ideas about what we wish to achieve in our victory in peace. But we must all agree that victory in peace, like victory in war, requires intense and unselfish effort, and we must prepare ourselves now for that effort against the day of victory.

[The audience arose and applauded.]

## REMARKS BY THE CHAIRMAN

CHAIRMAN FRASER: Sir John, the rising of the audience was not merely a recognition of the philosophic character of what you had to say, but it was a tribute to you as a representative of Great Britain. [Applause]

I would like to thank you not merely for what you said, but for your kindly and affectionate reference to our President, Lewis Douglas, who because of his arduous labors in Washington has been sharply, fortunately temporarily, attacked by an illness from which he will soon recover.

It is a little hard to know just how to introduce the next speaker. I was wondering what could be said, and then it occurred to me that perhaps one of the things that we are fighting for in this war is that free men may have the kind of self-made career the next speaker has had. Brought up (he will pardon my saying so, I hope) without the handicap of higher education, and without an undue amount of lower education, he became by working hard in a law office an able and an eminent lawyer in his state, so able and so affable, in fact, that the voters decided that they would send him to the Lower House of the Congress of the United States. There they liked him so much that they decided that he had better go to the Upper House. After he had been in the Upper House for a while, somebody said, "Well, does anybody think about the Supreme Court of the United States for this gentleman?" Somebody did. Then he became Justice of the Supreme Court.

He has not been out of Washington to make an address for two years, except once; and the fact that he comes here tonight is, I think, a compliment from him which we in New York City duly appreciate. Many of us in New York go frequently to Washington, but those in Washington who have had some indirect connection with the New Deal do not come so often out of Washington. I am not suggesting, of course, that Mr. Justice Byrnes hesitated to come out because he had had some connection with the New Deal. [Laughter]

I could introduce him as Mr. Justice Byrnes, Mr. Senator Byrnes, Director of the Office of War Mobilization, former Congressman, former lawyer, eminent Southerner, and yet perhaps it would be simpler to introduce him by the name by which he is best known to all his friends (and all in the telephone book are his friends, every one of them), and they know him as Jimmie Byrnes.

Ladies and Gentlemen of the Academy: It is my privilege to present to you "Jimmie" Byrnes, Director of the Office of War Mobilization, who will speak upon the subject, "Preparation for Peace on the Home Front".

[The assemblage arose and applauded.]



## PREPARATIONS FOR PEACE ON THE HOME FRONT

JAMES F. BYRNES

Director of the Office of War Mobilization

**W**E have reason to be proud of the success of our armed forces. But we must not be blind to the task ahead of us. American and British armies are approximately 500 miles from Berlin. The Russian forces are about the same distance on the other side from Hitler's capital. In the Pacific, we are 1,800 miles from Tokyo and the British in Burma are approximately the same distance.

The roads to Berlin and Tokyo are not only long, but bloody. Already our casualties, including killed, wounded, missing and prisoners, number 173,239; United Kingdom, 667,157; and the Soviet Republic, 4,500,000.

The casualties of the enemy are almost double those of ourselves and our allies, and we expect to keep them in that ratio.

Some are impatient at our lack of progress in Italy. No other major European battlefield on which we might choose to fight, or on which we might be forced to fight, can give the enemy the natural defense advantages that the Nazis have at Cassino. But on the whole, the Italian campaign is a success. Our major victory is the defeat of Italy, the opening of the Mediterranean, the control of the Adriatic, the control of Italian air bases, the transfer of the Italian fleet, and the tying up of nineteen German divisions during the period of crucial Russian operations.

Ahead of us is the greatest military adventure in the history of the world. Of the part our forces will play in that great drama we can say nothing, and those of us at home can do little. We must wait—and we must pray.

While the armed forces are winning the war we must prepare to win the peace. That is a necessary part of our war effort. The knowledge that the government is planning for the transition of war to peace should relieve industry, agriculture and labor of the fear of post-war depression and unemployment. It should help those on the home front and on the fighting front to concentrate on winning the war.

Because we have changed from the defensive to the offensive, it has already been possible for us to cut back some programs. These cutbacks are not primarily for the purpose of producing civilian goods. They are cutbacks in war programs no longer urgent, in order to expedite war programs that are urgent. The cutbacks in the army programs approved for 1944 and 1945 amount to sixteen and three-quarter billion dollars. That does not include the Air Service.

A review of the spare parts programs of the Army and Navy just completed indicates that by December 31, 1944, there will be reductions in these programs for the Army aggregating \$1,000,000,000, and for the Navy aggregating \$402,000,000.

The government must take a firm stand and close plants no longer needed in the war effort. From civic groups and from men in public office, there will come the cry, "Woodman, spare that plant." But we must realize that Santa Claus has gone; that there are no more plants to distribute; but there are many more bills to pay. It will be far better for communities to have plants closed now when the employees can find other jobs, than to continue operating and later close the plants when employees may not be able to find jobs.

The constructive report of Bernard M. Baruch and John Hancock on the problems of post-war readjustments has gone far to dispel the fog of controversy which had hung over the discussions of the termination of war contracts and the disposition of surplus property.

Legislation is necessary to solve effectively these problems. From my long experience in the Congress, however, I realize that delays in legislation are unavoidable. I believe it essential for the Executive to take no chances but to proceed to the fullest extent possible under existing law.

While waiting for legislation we have established an inter-departmental board to unify and simplify the procedures of our procurement agencies in handling contract terminations. The government will promptly pay contractors and promptly remove war materials no longer required, in order to make room for the installation, by manufacturers, of equipment and materials for civilian production.

The more difficult problems center on the freezing of capital which industry has tied up in terminated war contracts. Pro-

curement agencies must have the power to settle and pay promptly items on which they and the contractors agree.

Where claims cannot be settled by agreements, we must make adequate provision for interim financing of war contractors, particularly of small business which has only limited working capital of its own. We must give adequate authority to the procurement agencies to take over and settle in appropriate cases the claims of subcontractors. We must authorize the procurement agencies to make advance or partial payments on account and we must give a contractor the right to require a procurement agency to make, within a reasonable stated period of time, its determination of the value of the contractor's claim and to pay, on account, a substantial portion of such determination.

A Surplus War Property Administrator has been appointed. He has called upon the procurement agencies for an inventory. If we wait to get a complete inventory from all war theaters, the inventory will be only of historical value. But we will secure an inventory in sufficient detail to enable us to know what surpluses we have and where they are located. This list of surplus materials will be furnished to each procurement agency and no agency will purchase additional supplies without first consulting that list in order to ascertain if government supplies are already available.

Our surplus supplies must be disposed of at a fair price, and as rapidly as possible without demoralizing trade and industry. There must be no scrapping or destruction of useful property. Private monopolies must not be created or strengthened. Small independent local businesses must be given preference and industrial loans made available to them on appropriate terms.

The government's wartime investment in new plants and new machinery amounts to approximately  $15\frac{1}{2}$  billion dollars. But about one third of this amount is invested in plants specially designed for the manufacture of munitions which could have little or no peacetime use.

The problem of disposition, however, is enormously aggravated because 70 per cent of the government's total plant investment is in projects costing more than 10 million dollars each. The Surplus War Property Administrator must be authorized to lease as well as sell these plants if independent and local enterprises are to be given an opportunity to take

over any of the larger plants. And where possible, we must subdivide the larger units.

We cannot consider the problems of transition from war to peace without considering the problems of the farmer, the worker and the returning soldier. Agriculture, no less than industry, has established unprecedented production records in this war. The farmers must not be penalized for their war efforts as they were after the last war, with widespread foreclosures and bankruptcies.

Steps have already been taken to protect the farmers from a repetition of such a disaster. In the Stabilization Act of October 2, 1942, the Congress, acting on the President's recommendation, authorized the Commodity Credit Corporation to make loans on basic crops at the rate of 90 per cent of parity for two full crop years after the formal termination of hostilities.

The full significance of this provision may not be realized. Within two years after the last war the net income of our farmers was cut in half. The government now guarantees that it will not happen after this war. It is a wise policy not only for the farmers, but for the nation as a whole. It gives assurance that after this war we will have a policy not of scarcity but of food abundance.

Full crops will mean employment for those engaged in transporting, financing and selling them. The purchasing power of the farmers will turn the wheels of industry. Full crops will give our people health and strength. The majority of our people under conditions of full employment brought about by the war have been eating more food than ever before. We should see to it that they have the means to continue to do so.

Such surpluses as we can produce will be necessary to help replenish our reserves and to help the war-devastated countries during the period of rehabilitation. Such help is not misguided philanthropy. It is intelligent self-interest and just plain common sense.

In the national interest the government also has a duty to help labor tide over the period of transition from war to peace. The workers want work—productive work. But workers cannot create jobs that do not exist. The war has caused great movements of labor from state to state, from industry to industry, from farm and home to industry, and from farm, home and

industry into the armed forces. Not only have we taken 11 million able-bodied men and women into the services, but the net increase in industrial employment between 1937 and 1944 is estimated to be more than seven and one-half million.

Even if industry is helped to reconvert with unprecedented speed, even if agriculture is helped to continue a policy of abundance, there is bound to be considerable unavoidable unemployment during the adjustment period, and the problem will be much more aggravated for some types of work than for others. We cannot say to our service men and women, or to the men and women who supplied them with food and munitions, "You must shift for yourself until you find a job." That sort of attitude can only bring discredit upon, and sap the strength of, our system of free, private enterprise.

A Retraining and Reemployment Administration has been established and is coördinating the activities of the various agencies having anything to do with veterans' affairs. There will be established in every urban center an Information Office where the veteran can learn what assistance he can secure from the government, and talk with an individual handling the particular kind of assistance in which he is interested.

Congress has already provided mustering out pay for our service men and women. The broadest possible facilities have been provided for their retraining, and opportunities will be accorded to those who wish to continue their education. Not only must we do everything possible to find or create jobs for our service men and women, but we must provide unemployment benefits for them until they do find jobs.

Some persons have urged that a dismissal wage be paid to workers on their discharge and that the cost of dismissal wages be recognized by the government as part of the cost of contract termination. However, the dismissal wage would bear no exact relation to the needs of the workers, and some who might quickly find new jobs would get more than they needed while others would get much less. If the dismissal wages were limited to employees of war contractors, it would unfairly discriminate against workers in essential civilian industries. And it is difficult to draw a line between warworkers and nonwarworkers. The dismissal wage would be exceedingly difficult of fair and equitable application, but we should realize that neither industry nor government will be able to resist the de-



mand for dismissal pay unless a better alternative is offered to them.

The existing state unemployment insurance laws were framed to meet local conditions of temporary unemployment and are not adequate to deal with the nation-wide problem of reemployment. Demobilization must be regarded as a national problem and its costs as part of the costs of the war. I think the most constructive approach to this problem is to supplement existing state unemployment benefits to the extent necessary to give workers, during the transition from war to peace, suitable unemployment benefits to be prescribed in a federal demobilization law.

The federal law could fix a maximum and minimum benefit. Within the range prescribed by the law the benefits payable should be a stated portion of the worker's previous earnings with allowances for the worker's dependents. In view of its purpose, the federal law should cover practically all workers. If there is a waiting period it should be very limited. The number of weeks in any year that the benefits are payable should not be as restricted as they are under existing state laws. Those receiving benefits should report to the employment services and should lose their benefits if they refuse suitable employment. Such a plan might be put into effect after the collapse of the Nazis and be continued for a period after the war.

Of course no one would suggest that unemployment benefits should be considered as an adequate substitute for a real job. But in an interdependent society the worker cannot make his own job, and the burden of unemployment must not be allowed to rest solely on the worker.

The proposal gives to private enterprise the assurance that its efforts to expand after the war will not be frustrated and stalled at the outset by unemployment and falling purchasing power. It gives private enterprise assurance that unavoidable unemployment shall not breed avoidable unemployment. It gives to all of us the assurance that our hopes for the future will not be blasted by growing social discontent during the period of transition from war to peace.

But all of our plans for the reconversion of industry and for the progressive improvement of agriculture and labor, however carefully and cautiously they may be worked out, are likely to

come to naught if we have not the courage and self-restraint to withstand the threat of inflation.

The greatest danger to post-war reconstruction at home is the danger of inflation. If prices are to sky-rocket and then fall, as they did after the last war, industry, agriculture and labor are going to be hurt and our efforts to help all or any of them will be a failure.

So far, I think the American people can be proud of the fight that they have made against inflation. We have had to draw much more drastically upon our manpower and resources than during the last war. Yet in this war the cost of living has risen only 25.9 per cent as against a rise of 64.6 per cent during the comparable period of the last war. During the last year, with the help of the hold-the-line order and the judicious use of subsidies, the cost of living has not risen at all.

While we are now taxing our people more heavily, more money is left in the hands of our people after they have paid their taxes than they had during the last war. A large measure of credit for the success of our stabilization program must go to the large majority of our people who have been patriotic and intelligent enough to save their money and buy war bonds. If the people will preserve their purchasing power until after the war, not only will reconverted industry have a better market for its products, but the people will get better products for their money.

Our present stabilization program may not be perfect, but it has worked. So far as inflation is concerned, we are on a dangerous sea, and any group that rocks the boat now is taking on itself a grave responsibility.

The Price Control Act and the Stabilization Act expire on June 30, and legislation to extend them is now pending before the Congress. It seems clear to me that this is no time to tinker with those control measures. Any concession to any group will only invite demands for other concessions from other groups. As we value the future and the peace for which our boys are fighting and dying, we should stand firm against any relaxation in the fight against inflation.

If we do hold the line against inflation, when the war is over, we can proceed with confidence to build for the future. We have the energies, the food and resources, the productive plants,

the technical skills, the scientific knowledge, to supply in greater abundance than ever before the needs of our people.

Taxation which is best suited to the needs of a war economy is not at all suited for an expanding peace economy. With the end of the war there should be an end of the wartime system of taxation. [Applause]

The history of tax legislation shows that the drafting and passage by Congress of a general tax bill frequently requires six months. We must avoid this delay. An interdepartmental committee is now working under the direction of the Secretary of the Treasury upon proposals which he will submit to the Congress at the proper time. Congress is also studying the problem and I am sure that, with the coming of peace, the government will quickly provide a system of taxation that will enable us confidently to build for the future.

Nothing is more essential to peace and well-being of the world than a prosperous and fully employed America. Out of this war we will come with great natural resources and greater productive capacity. We will have most of the gold of the earth and most of the ships on the seas and in the air. We will have a powerful army and *the* most powerful navy. Our economic and military strength will be greater than that of any nation on earth. The use we make of that power will be the test of our statesmanship.

More than our material prosperity is at stake. Of what value are our wealth and military strength compared with the lives of the boys, and girls too, who today are dying for us? My prayer is that God will inspire us to rise above selfishness and love of luxury, and to demand that the power and wealth He has given us shall, at the peace table, be used to make certain that never again will the mothers of the world suffer the anguish and pain they now endure.

[The audience arose and applauded.]

#### REMARKS BY THE CHAIRMAN

CHAIRMAN FRASER: Mr. Justice Byrnes, for your unusually specific and concrete remarks about the policy which you foresee—and every word that comes from you weighs a pound—we are very thankful.

And now may I say to you, fellow taxpayers, that the time has come for you all to go home—unless you would rather go somewhere else.